# REGIONAL CREDIT EVALUATION PROJECT IN GEORGIA

*Submitted to:*

**United States Agency for International Development (USAID)**

*In response to:*

**Contract AEP-I-00-00-00023-00**
**Task Order #808**

*Team Members:*

**Marshal Burkes, Team Leader**
**Ronald Bielen**
**Jane Seifert**

*Submitted by:*

**Development Associates, Inc.**
*1730 North Lynn Street*
*Arlington, VA 22209-2023*
*Telephone: (703) 276-0677*
*Fax: (703) 276-0432*

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# EXECUTIVE SUMMARY

## I. BACKGROUND AND OBJECTIVES

This report presents the results of the Regional Credit Evaluation Project in Georgia. The evaluation in Georgia was conducted during the period July 19 through August 9, 2001 by Development Associates, Inc under IQC Contract No. AEP-1-00-00-0023-00, Work Order #808. The purpose of the project was to review, analyze and assess the status of development of the finance sector including financial products and credit provided by formal banks and non-bank financial institutions (NBFIs) targeted on micro, small and medium size enterprises (MSME). Based on the findings, the team made strategic and programmatic recommendations for USAID's ongoing assistance.

The assessment team was tasked by USAID to assess the following major issues groupings having to do with MSME finance:

*I. Major constraints to access to credit*
*II. Demand and supply of credit and related products and services*
*III. Existing and potential financial products supplied by banks and NBFIs*
*IV. Strengths, weaknesses, opportunities and threats relating to USAID funded credit institutions*
*V. Prospects for the sustainability of microfinance institutions*
*VI. Affiliations and partnerships between banking and non-banking institutions*

During the course of the work, the team interviewed 16 staff members of all MSME financial service intermediaries funded by USAID as well as several other non-USAID funded operations. Additionally, 18 completed questionnaires were received and tabulated in the analysis of the issue areas identified in the SOW. The team also:

- met with USAID personnel, obtained, and reviewed pertinent documents;
- interviewed personnel from intermediary finance organizations and other institutions recommended by the Mission;
- visited sites in six diverse geographic areas[1] to obtain a realistic view from the field;
- interviewed borrowers in five sites outside Tbilisi; and,
- met with key individuals to discuss preliminary findings and conclusions.

## II. PRINCIPAL FINDINGS

### A. EVOLUTION OF USAID-FINANCED CREDIT FUNDS

The December 1998 USAID study entitled "Assessment and Rating of the Georgian Banking System," stated that "Georgia is beginning to establish a satisfactory legal and regulatory framework for market-based banking." The current report corroborates this finding. Progress has been made in the financial sector in recent years. The underpinnings for an adequate legal

[1] Batumi, Gori, Kutaisi, Rustavi, Tbilisi, and Telavi

and regulatory framework for banking and business development appear to be on the books. The important current problem, however, is that the laws and regulations are not being practically applied to protect or further the interests of enterprises or financial institutions on a consistent, nationwide basis.

The banking sector in Georgia has not completed a transition from the Soviet period so it lacks the needed confidence. It is not able to attract domestically generated funds for business lending either through domestic savings or other kinds of commercial paper. Thus, there is a very high degree of reliance on foreign aid for sourcing MSME credit funds.

In order to reach its market economy and private enterprise development objectives, the USAID Mission committed to a program to increase the availability and improve the delivery and coverage of effective credit throughout Georgia at the micro, small and medium scale enterprise (MSME) levels. USAID began partnering with eight organizations, most of which had prior solid MSME experience and possessed established and time tested models of lending to different levels of business, depending on the NGO. Some like FINCA and Save the Children Federation are microfinance specialists, others, like Shorebank target larger enterprises. Each has different approaches to lending, institutional development and sustainability issues that are driven by operational issues such as costs of making and servicing loans and difficulty in scaling up to a viable number of loans and loan fund volumes.

In the agriculture sector USAID is partnering with ACDI/VOCA to help transform agricultural cooperatives into western style first level cooperatives and second level cooperative associations that provide business services and loans to members in several locations.

Available data on microlending reveal that:

- loan repayment rates have been excellent; based on the limited period of time over which the projects have operated and given a stable economy at the local level. However, the capacity of borrowers to continue to repay their debts has not been truly tested under more trying circumstances; and,

- microloans are reaching a high percentage of women borrowers, as would be anticipated in microlending projects, due to their active presence in the markets and other retail and wholesale trade ventures that are often owned and operated by female entrepreneurs.

## B. SUSTAINABILITY OF LOAN FUNDS

The team's observations are that total costs of operations are high and many portfolios are too small to cover them. The limited scale of the small programs causes overhead to be a burden. All institutions surveyed need a larger portfilio to become to have economies of scale . Due to the heavy unmet loan demand in the market, institutions are able to pass on their high cost of operations to their borrowers, so far, without much problem. But, if the costs of lending can be lowered, leading to a commensurate reduction in the interest rate and fees charged to the borrowers, they should be. For now, due to the heavy demand in the market, institutions are able to pass on the high cost of operations to their borrowers.

## C. AFFILIATIONS AND PARTNERSHIPS

The assessment team reviewed the current status of and potential for affiliations and partnerships between banking and non-banking institutions. The issue is relevant to the Mission's general interests in achieving viable scale and fostering long term sustainability of the services provided by intermediate finance institutions. During the participatory session with institutions it became clear that occasionally projects were not designed to continue beyond a set date and that self-sufficiency was not part of the equation from the outset. In general, these organizations were aware of the need to find "a safe home" for their loan assets, implying the need to transfer them to another institution. In those cases, the problems need to be remedied in a way that protects the on-going integrity of the problem institution and/or loan capital, at a minimum. These partnerships or affiliations could be based on joint lending, portfolio purchases or transfers, shared services, and loan guarantees.

## D. CONSTRAINTS TO ACCESS TO CREDIT

***Legal and Regulatory Climate***

There is lack of consistency in enforcing laws. Lenders are uncertain they will prevail in enforcing their collection efforts through legal process. Judges do not refer to previous rulings by other judges in making their decisions. They freely render decisions contrary to even their own earlier rulings. A system to make available precedents for reference in making decisions and guidelines for following these precedents could improve the consistency in implementing laws nationwide.

The current playing field is skewed in favor of the borrower and this makes potential depositors and other sources of funds, eg. lenders, uneasy.

Lenders also tend to be conservative because of extreme difficulties in obtaining credit information on applicants. Exchange of credit information on applicants, even such a basic item as if the applicant has an existing loan is not permitted. There needs to be a clearly established right for lenders to be able to access credit information on applicants.

One critical constraint within which financial institutions must operate is in the area of collateral. None of the financial sector managers interviewed were optimistic about their ability to gain title to collateral or to attach and sell it when needed to cover defaults. They were uncertain of the time it would take in court to execute collateral agreements and they were not sure what the legal fees would be if they lost the case, an important issue since legal fees are paid by the loser.

***Long-term Access to Funds for Financing MSME Credit***

The team noted that the supply of funds is a significant problem in Georgia although there are reportedly large amounts of funds outside the banking system. Individuals and businesses lack confidence in the banking system and therefore there is a shortage of deposits from which lending can occur. The supply of GEL lending funds should be enlarged. However, in the absence of this short term possibility, there is almost total reliance on international donor financing for the loan capital to be used for MSME lending.

The best source of capital accumulation over time would theoretically be the collective savings of both individuals and businesses. But given the lack of confidence in the financial/banking system, this is not likely to be a source of MSME capital in the near future. Inflation and other macroeconomic issues aside, prudent investors/savers are often worried about the stability of specific banks and at least need the protection of insurance on their basic savings in the form of some kind of savings deposit insurance program. The leadership and the sponsor of this kind of deposit insurance, as in other countries, must be the Central Bank or an affiliated, authorized agency.

***Need for Loan Funds and Demand for Credit***

There is clear evidence that demand for credit in general terms exceeds the present supply by a substantial amount. Results of the questionnaire, the interviews and the participatory session all support this conclusion. Results from the questionnaire were not conclusive on regional differences, but there is evidence from interviews that the availability of microloans is closer to demand in Tbilisi than outside the capital.

# III. PRINCIPAL RECOMMENDATIONS

The team's principal recommendations regarding future USAID programming for MSME credit operations follow:

- USAID should continue to finance MSME increases in credit funds for organizations that demonstrate a commitment to achieving long-term sustainability and local job creation. In cases where long term sustainability is unlikely in order to protect loan fund assets, USAID should facilitate portfolio transfers from institutions that can no longer sustain themselves to complementary institutions that can. This could constitute the additional funding needed by another organization, but would not require USAID to disburse new funds.

- USAID should encourage and assist, to the degree possible, in the drafting of legislation that clarifies the process of utilizing private collateral as security on loans. In conjunction with this effort, the Mission should propose the development and implementation of a security interest filing system that would track property that has been used as collateral on loans.

- USAID should encourage the Government of Georgia to enact legislation and clear regulations allowing for the existence of non-bank financial institutions (NBFIs.) The status of non-banks should be clearly established in the new law allowing them to fill the void not presently covered by banks. This includes clearly specifying their tax and deposit taking status.

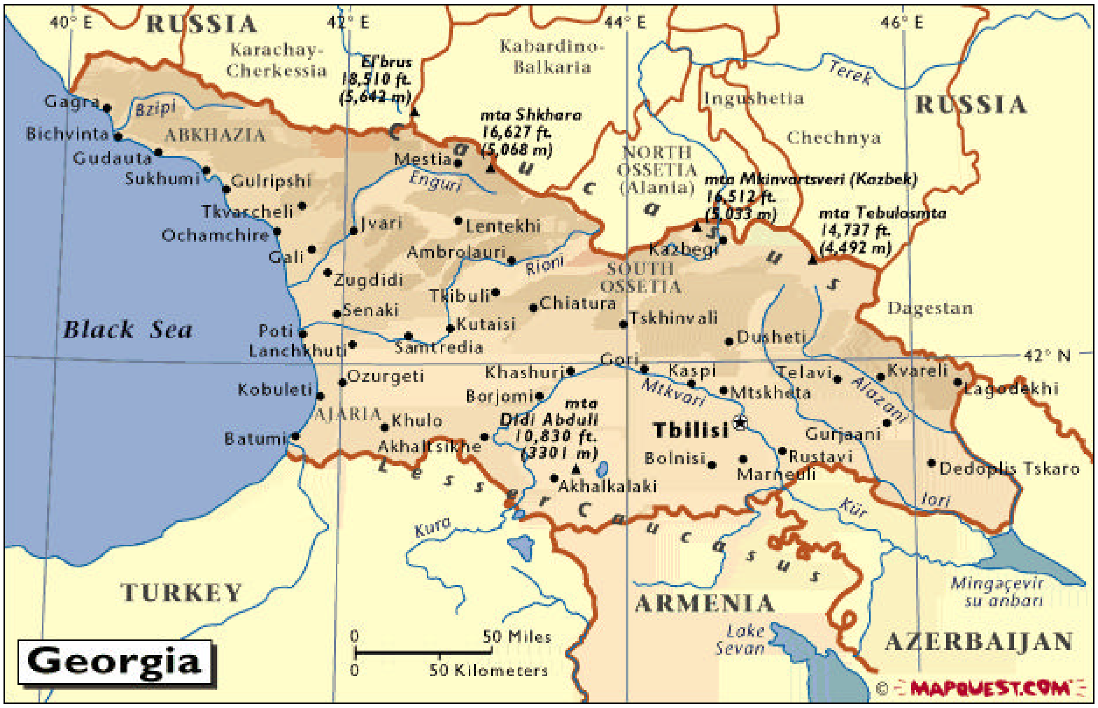
- USAID should take a lead role in causing its MSME partners to do longer-term strategic planning that includes possible affiliations or partnership alternatives. Credit projects applying for additional operational or loan capital funding for consolidation or growth should be reviewed on the basis of good strategic and business plans that address how the applicants will obtain uninterrupted and diversified funding, that is, from sources other than USAID. Depending on the new NBFI law, if drafted, this may include different kinds of internal savings initiatives.

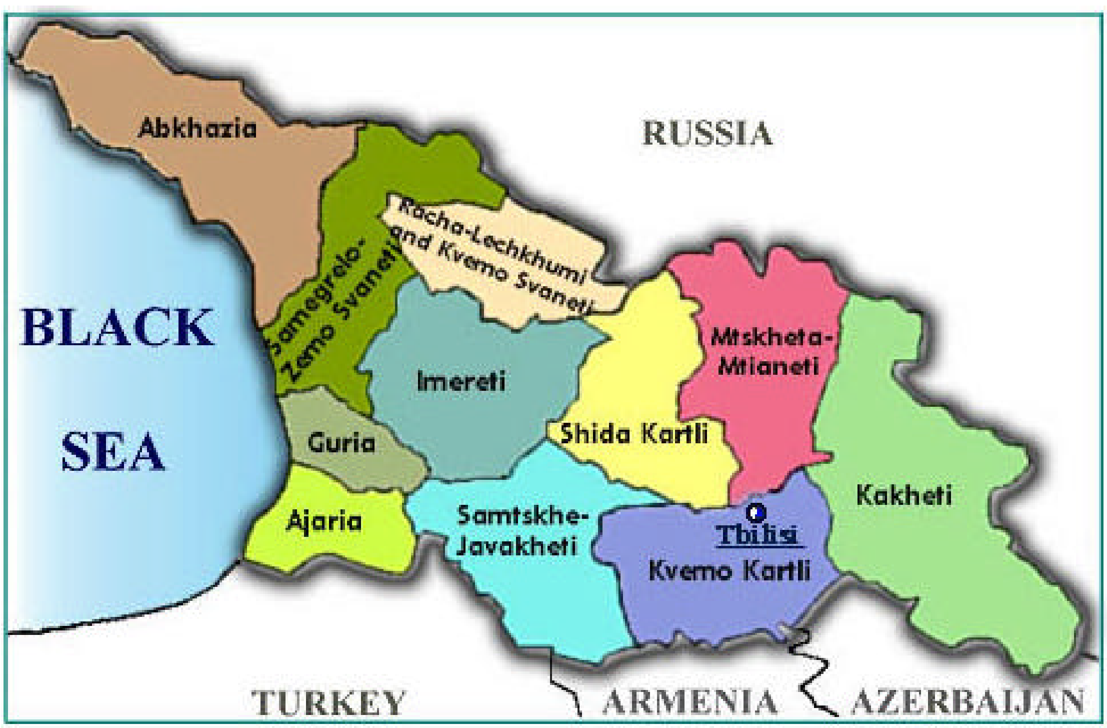
- USAID should continue technical assistance and training support to established and future partners, including formal banks, in the areas of management, board development, and internal controls.

- USAID should work with its partners and the Government of Georgia to create a nationwide credit reporting agency, or data base, that provides lenders with information on potential borrowers in order to avoid bad credit risks. Legislation is also needed with regard to having a clear and expedited process for dealing with defaults.

- USAID should encourage the Government of Georgia to support a nationwide deposit insurance program covering GEL savings accounts for up to GEL 5,000 in order to begin the process of generating MSME loan capitalization from domestic sources.

# REGIONAL MAP



# REGIONAL CREDIT EVALUATION PROJECT IN GEORGIA

## CHAPTER I. INTRODUCTION

### A. PURPOSE OF THIS REPORT

This report presents the results of the Regional Credit Evaluation Project in Georgia. The purpose of the project was to review, analyze and evaluate the status of development of financial products and credit provided by banking and non-banking financial institutions (NBFIs), primarily those aimed at micro lending and small and medium size enterprises (SME). Based on the findings, the evaluation team was to make strategic and programmatic recommendations for USAID's ongoing assistance.

More specifically, the evaluation team was asked by USAID to address six major issues. A discussion of these issues constitutes the major portion of the report. These issues are:

*VII.* *Major constraints to access to credit*
*VIII.* *Demand and supply of credit and related products and services*
*IX.* *Existing and potential financial products supplied by banks and NBFIs*
*X.* *Strengths, weaknesses, opportunities and threats relating to USAID funded credit institutions*
*XI.* *Prospects for the sustainability of microfinance institutions*
*XII.* *Affiliations and partnerships between banking and non-banking institutions*

A discussion of each of these issues is presented following this brief introduction and an overview of the credit institutions.

### B. METHODOLOGY AND APPROACH

The evaluation in Georgia was conducted during the period July 19 through August 9, 2001 by Development Associates, Inc under IQC Contract No. AEP-1-00-00-0023-00, Work Order #808. The team consisted of three finance experts: Marshall Burkes, Team Leader, Ronald Bielen and Jane Seifert who worked on site in Georgia during the period July 19 through August 9, 2001 using a variety of rapid appraisal methods including document review, individual and group interviews, and a participatory session. The team provided a debriefing to Gerald Andersen, Director of the USAID Office of Economic Restructuring and his staff as well as the Deputy Mission Director prior to departure from Georgia en route to the second phase of the Work Order in Azerbaijan.

The team's approach was to begin by reviewing the literature provided by USAID in order to gain an overview of the situation in Georgia. Next, the team met with USAID's Economic Restructuring Team to gain a further overview and recommendations on key individuals and institutions in Georgia to contact. Based on these initial steps, a work plan was developed. The plan included:

- Design and distribution of questionnaires to 20 key individuals identified by USAID.
- Interviews with recommended personnel from intermediary finance organizations and other institutions related to the business, legal and regulatory environment.
- Site visits to six, diverse geographic areas[2] to obtain a realistic view from the field of the institutions and their borrowers.
- Interviews with two borrowers during five of the site visits (all but Tbilisi).
- A participatory session with key individuals.

Consistent with the work plan, the team interviewed key persons from all financial service providers funded by USAID. In each case this included the head of the technical assistance team supporting the service provider as well a Georgian employee of the service provider. Additionally, the team interviewed key persons engaged in small and micro credit activities that were not funded by USAID. A total of 16 key persons were interviewed. Examples of persons outside of USAID funded providers included Microfinance Bank of Georgia's Batumi branch manager and the manager of EBRD's Georgia Microfinance Program. Examples of key persons interviewed from USAID funded projects included the country director of ACDI/VOCA and the managers of individual credit associations supported by ACDI/VOCA. The topics covered during the interviews included an overview of the credit situation in Georgia, constraints encountered by the financial service provider, types of credit products provided, prospects for new types of credit products, geographic differences in credit demand, operational and financial sustainability. For USAID funded projects, the key person interviews were always followed up with interviews of borrowers.

In addition to the interviews, 18 completed questionnaires were received and included in the analysis. The questionnaire was designed to elicit responses from key individuals and organizations identified by the Mission with respect to each of the issue areas identified in the SOW. Our Team Leader personally contacted each of the 20 recipients of the questionnaire to explain the purpose of the assessment and to request their participation. A list of the 14 organizations represented by the respondents is provided in Table 1, below (there was more than one respondent in three of the organizations).

The team used the results of the questionnaires and individual interviews, along with the review of documents, reports and other existing literature, in preparing this report. Lists of persons interviewed/visited, the reports and publications reviewed, and a copy of the questionnaire are provided in the appendices.

[2] Batumi, Gori, Kutaisi, Rustavi, Tbilisi, and Telavi.

**TABLE 1**

**Organizations Responding to the Assessment Questionnaire**

| | |
|---|---|
| ACDI/VOCA | Agrobusiness Bank |
| Bank of Georgia | Constanta Foundation |
| FINCA Georgia | MGB |
| Caucasus SME Finance Program/Shorebank Advisory Services | Direct Lending Program Shorebank Advisory Services |
| SAS/IFC Real Estate Program Shorebank Advisory Services | TBC Bank |
| World Bank, Tbilisi | World Bank Credit Union Program |
| World Vision | ADRA |
| CHCA | IRC/Kutaisi |

# CHAPTER II. OVERVIEW OF FINANCIAL ENVIRONMENT AND CREDIT INSTITUTIONS

## A. OVERVIEW OF THE FINANCIAL ENVIRONMENT

Historically, the Georgian Republic provided most of the fresh food and potable drink for the rest of the Soviet Union. This was true even though Georgia was unable to enjoy a private sector economy for about seventy years and during that time little development occurred. By reputation at least, this situation stemmed from the county's innate sense of capitalism and marketing skills.

A series of events following the dissolution of the Former Soviet Union conspired to change the Georgian economic panorama radically during the 1990s. Two civil conflicts, large numbers of displaced people, a 70% decline in economic output in five years, disruption of agricultural production, commensurate increases in debt ratios, and economic crises in Georgia's major trading partners – first Russia and then Turkey – led to the serious economic downturn. The few Soviet financed and utilized industries became obsolete and are now closed. To say the least, the last decade has not been a propitious time for new investment or business expansion.

Most of Georgia's commercial activities are in six cities. These cities have few manufacturing firms, and the national economy is based on agriculture, trading and services. Except for considerable imports from Turkey and the North, the people continue to be self-sufficient at a minimum level. The dependence on "private plots" (yards of homes) is evident in each town and throughout the rural countryside. The prior poor management of sizeable acres of farming land is evident by broken irrigation systems, inconsistent cropping patterns, obsolete equipment, and dated seeds of crops and breeds of livestock.

While progress has been made since the rock bottom points of 1993 (hyperinflation of 13,000%) and 1998 (devaluation of 40%), overall the economy seems to be flat. As described by our interviewees, heavy dependence on foreign aid and a continuing mistrust of the financial system has been responsible, in part, for very low savings rates affecting the domestic supply of credit funds available for enterprise development**.**

Micro loans were introduced in Georgia with the support of outside donors several years ago, and the volume of micro loans has increased considerably in the past two years. Most of these micro loans have had a four-month maturity with the expectation of repayment and reapplication for the issue for an additional US$50 four or more times. Based on this limited period of time and with a fairly stable economy at the local level, the capacity of the borrowers to continue to repay their debts has not been really tested. However, it is clear from a review of available data that:

- women are active in the markets and shops, so the target loans are getting to them;
- an entrepreneurial spirit is alive and well throughout Georgia even with the availability of only a minimum of resources; and
- basic and practical business training is being provided by NGO's funded by USAID and others.

A major outstanding issue in the environment within which financial institutions must operate has to do with collateral. None of the financial sector managers interviewed were optimistic about their ability to gain title to collateral or to attach and sell it when needed to cover defaults. Furthermore, none of them were certain of the time it would take in court to execute collateral agreements, nor were they sure what the legal fees would be if they lost the case (legal fees are paid by the loser).

As for the financial system itself, in the USAID-sponsored December 1998 *Assessment and Rating of the Georgian Banking System*, the following statement opened the summary: "Georgia is beginning to establish a satisfactory legal and regulatory framework for market-based banking." The current review of Georgian credit institutions (August 2001) corroborates the finding, quoted above. That is, we believe that progress has been made in the financial sector in recent years. While the underpinnings for an adequate legal and regulatory framework for banking and business appear to be on the books, an important current problem is that they are not being practically applied to protect or further the interests of enterprises or financial institutions on a consistent, nationwide basis.

In sum, Georgia is faced with difficult financial environment for growing businesses under a free market economy approach. Low savings rates result in a lack of domestic capital for financing credit. This, in turn, leads to a reliance on foreign aid for sourcing credit funds. There is also inconsistent application of business laws, and a generally flat economy.

## B. OVERVIEW OF USAID SUPPORTED CREDIT INSTITUTIONS

A stable market economy with democratic governance is a goal of the USAID Mission in Georgia, with economic restructuring at the central level and the accelerated growth and development of private enterprises as major Mission objectives. To help reach these objectives USAID is supporting the mobilization of financial resources for private enterprise. To improve the supply of effective financial services the Mission is partnering with Shorebank Advisory Services and FINCA International. Each has established models of tested lending to small, medium and micro enterprises. Through another partner, ACDI/VOCA, USAID has established a program to help to transform agricultural cooperatives into cooperative associations that provide business services and loans to members in several locations.

In Table 2, below, we provide a summary of the primary loan portfolio characteristics of seven of the eight USAID-funded financial organizations in Georgia, as well as two significant non-USAID organizations (the Bank of Georgia and the Microfinance Bank of Georgia). The summary includes descriptions of the products, portfolios, accomplishments and projections of each. All eight of the USAID-funded organizations were asked for information, and all except one provided selected information on projected portfolio growth that was used in Table 2.

Brief descriptive overviews of other salient characteristics of each of the major financial organizations follow the presentation of Table 2.

**TABLE 2**

**Primary Microfinance Institutions in Georgia with Loan/Portfolio Characteristics***

| Name of Organization | No. of Micro and Small Clients (2001) | No. of Clients By 2003 (3 Years) (Est.) | No. of Clients By 2005 (5 Years) (Est.) | Capital for Loans (US$ mil) | Portfolio Growth By 2003 (3 Years) (%) | Portfolio Growth By 2005 (5 Years) (%) | Additional Capital Needed** (US$ mil) |
|---|---|---|---|---|---|---|---|
| ***Non-Bank Financial Institutions Supported by USAID*** | | | | | | | |
| ACDI/VOCA | 1,300 | 3,000 | 6,000 | 2.5 | 30 | 200 | 5.0 |
| ADRA | 600 | 3,480 | 4,600 | 0.14 | 60/140 | 80/350 | 0.5 |
| Constanta | 10,800 | 17,000 | 30,000 | 1.5*** | 400 | 500 | 3.5 |
| FINCA | 5,800 | 9,870 | 15,000 | | 200 | 280 | 2.0 |
| IRC | 1,500 | 3,000 | 4,000 | 1.1 | 15 | 20 | 0.5 |
| World Vision | 670 | 3,000 | 5,000 | 0.5 | 70 | 140 | 1.0 |
| ***Banks***** | | | | | | | |
| ABG | 350 | 800 | 2,000 | 25.0 | 8 | 20 | 5.0 |
| BoG | 400 | 100,000 | 150,000 | 40.0 | 30 | 50 | 10.0 |
| MBG | 11,100 | 15,400 | 22,000 | 17.8 | 260 | 280 | 22.0 |

* Note: Assembled in Mid 2001 on an unofficial, self-reported basis.
** The additional capital needed was each institution's estimate of the funds required to meet growth requirements. It is noteworthy to see the variation between the organizations when comparing increase in five-year volume to capital needed. The two involved in rural credit, ACDI/VOCA and Agrobusiness Bank projected amounts exactly equal to the increased growth. The commercial banks projected needing an amount equal to about one half of the increased growth, as did Constanta. However, the other non-bank institutions requested more funds than the amount of growth. This ranged from 140% to 500% of growth funds. This may be due to the very small portfolio size of the institutions and the related heavy overhead costs associated with maintaining such a portfolio.
******* The writers took financial data in either GEL or US$ and reported it on an understanding of GEL 2 to US$ 1.
**** Information from TBC Bank was not available.

### *Non-bank Financial Institutions*

➢ **ACDI/VOCA (ENKI Foundation)**

ACDI/VOCA, a US based private nonprofit international development organization, began activity in Georgia in July 1993 with a USAID-funded agribusiness assessment. In January 1996, ACDI/VOCA started its Farmer-to-Farmer Program, funded by USAID, which provides for the staff training of credit associations that have been recently established. Currently there are six credit associations supported by ACDI/VOCA with funding provided by the US government. These are in Gori, Telavi, Tsnori, Bolnisi, Zestaponi, and Kobuleti. This year, these six offices form the basis of the National Rural Credit System (NRCS). The members of the NRCS do not take deposits from their clients. Borrowers become voting members of the cooperative. The cooperative members elect a Board of Directors, one member of which will then represent the local association on a National Board. Loans from the NRCS can be made for any purpose that involves the production, processing or marketing of agricultural commodities or food.

In addition, through the use of USDA "monetization" process (grain to cash) ACDI/VOCA has established a credit delivery system modeled on the US member-owned Production Credit Associations (PCAs). Since 1997, the credit project has provided technical assistance to SEED Enterprise Enhancement and Development Project (SEED). After the SEED Project was complete, ACDI/VOCA established a new Credit Project in September of 2000.

- **Adventist Development and Relief Agency (ADRA)**

ADRA Georgia began a micro credit program in Kutaisi in early 2000. The original objective was to establish a village bank, but they decided to do a microcredit program as a pilot. They had a $100,000 grant from the Save the Children and $40,000 grant from IMI for loans as well as $300,000 for training purposes from IMI. Group lending is used to reach many individuals, particularly women. The maximum loan is $1,000.

In just over one year, ADRA's staff of four credit officials and one supervisor has placed 590 loans for a total of $130,000. (Currently, ADRA relies on a full staff of thirteen.) The interest and principal reflows are returned to the revolving fund for re-lending, but are not sufficient to cover operational expenses and avoid decapitalization of the loan fund.

In August 2001, ADRA's immediate concern was that the eighteen-month pilot project was scheduled to end in one month (9/14/01) and they must find ways to increase the size of the revolving fund to be able to support the operating costs associated with the management of the fund. This could be done by: (a) obtaining additional grant funding to manage themselves; (b) enlisting a partner; or (c) transferring the ADRA loan assets to another fund manager. By joining the funds together with another organization and increasing operating efficiencies, the current ADRA fund might be able to achieve at least operational sustainability, if additional funds cannot be obtained for the ADRA pilot.

- **Constanta Foundation (Save the Children)**

Constanta was founded in January 1997, by the staff members of Save Children Field Office in Georgia. It was originally registered as a not-for-profit association; but to comply with a change in Georgian law, it was re-registered in January 1999 as a non-profit foundation.

Constanta started its operations in October 1997, with funding from UNCHR through Save the Children. Currently, Constanta is funded partly by UNHCR (direct grant) and partly by USAID/Save the Children USA. It operates two branches in Tbilisi – serving Tbilisi and Mtskheta; one branch in Batumi, and one branch in Gori (since June 2001).

Constanta has two lending programs. First, there is the Group Guarantee Lending and Saving (GGLS) Program. These loans start at $110, do not require collateral (but a group guarantee is needed) and the target customers are micro businesses: low-income traders and refugees, who form groups of 7-15 individuals in a similar business to get credit.

These are short-term (4 month) repeated loans that increase in size with each cycle for group of 7-15 people, without collateral pledging.

In the spring of 2001, Constanta introduced an individual loan product targeted to former GGLS clients who have graduated and are in need of larger loans. Some of the common economic activities supported by these loans are: trade 72%, food processing 18%, artisans/handicrafts 6%, and others 4%. The initial loan size is US $100 (GEL 200) with subsequent increases by GEL equivalent to US $50, and with a duration of each cycle of 16 weeks and an interest rate of a flat *4%* per month. Repayments are to be made in weekly, equal installments of principle plus interest. No collateral is required for up to 15 members and group guarantee. The clientele for these loans is mostly women microentrepreneurs with about 6 months experience; many are internally displaced persons (IDP's).

Under the group lending methodology, each member of a "borrowing group" will receive a subsequent loan only if every member of the group repays their current loan. This approach is very disciplined and consists of seven cycles, each reached by the entire group, and with a new loan available only once the group has repaid the loan from the previous cycle.

- **FINCA Georgia**

Launched in 1998, FINCA Georgia is an affiliate of FINCA International. FINCA (The Foundation for International Community Assistance) provides financial services to some of the world's poorest families so they can create their own jobs, raise household incomes, and improve their standard of living. Currently FINCA Georgia operates through its Tbilisi, Telavi and Rustavi Offices, under a sub-grant from Shorebank Advisory Services (SAS) which has a grant from USAID.

FINCA Georgia has three primary lending programs. The first is the Savings and Credit Group (SCG) loan product. Similar to Constanta's GGLS, these loans start at $110, do not require collateral (but a group guarantee is needed) and the target customers are micro businesses: low-income traders and refugees, who form groups of 7-15 individuals in a similar business to get credit.

The second loan product, which ranges from $500 to $800, requires individual collateral but has relatively simple procedures. This credit is targeted to clients who have prior and positive borrowing experience with FINCA.

Third, the newest lending product, Small Enterprise Loan (SEL), is targeting small businesses. Loan amounts range from $1,000 to $5,000. This product requires collateral pledging, and also preparation of a business plan and pro forma financial statements.

- **International Rescue Committee (IRC)**

The International Rescue Committee (IRC) is primarily a humanitarian service organization focused on refugee issues. It has been engaged in microfinance activities in Georgia since 1997. The IRC focuses its microfinance efforts on the IDP population in and around Kutaisi and Zugdidi. Loans are made to both individuals and groups of borrowers, with loan sizes ranging from GEL 150 to GEL 1,000 for group loans and GEL 500 to GEL 5,000 for loans to individuals. The IRC requires one week of training for all individual loan applicants to prepare a business plan that is submitted to the IRC before they receive credit. The IRC has received funding for its microfinance activities from the United Nations High Commission for Refugees (UNHCR) and Stichting Vluchteling, as well as a grant from USAID to establish vocational training centers and business incubators in Kutaisi and Zugdidi.

➢ **World Vision Georgia**

World Vision International has operated in Georgia since 1994 in a number of relief and development projects. A major program is the MED program which was launched with a USAID SEED grant in 1995. This MED program, active in Tbilisi, Rustavi and Kutaisi, provides individual loans up to $10,000 and group loans up to $900.

***Banks***

➢ **Shorebank Advisory Services**

Shorebank Advisory Services (SAS) is not listed in Table 1, as it does not have a loan portfolio. However, it does have personnel within the Bank of Georgia and the TBC Bank, and it has been a partner with FINCA International. SAS began this five-year "Caucasus SME Finance Program" (CSFP) in 1998 to promote grass roots economic growth and regional economic integration in Armenia, Azerbaijan and Georgia. The primary focus of the program is to create and promote financial products and institutions that meet the needs of small businesses and microenterprises. Non-financial enterprise development efforts, such as training and networking, are used to complement financial sector initiatives. Over $10 million in funds have been disbursed through eleven intermediaries.

The CSFP has a diverse array of activities to support SMEs:

- ***Microfinance:*** One of Shorebank's partners, FINCA International, provides loans starting at $100 for a four-month term, providing financing to the smallest and start-up entrepreneurs.

- ***Commercial Bank Small Business Loans:*** Shorebank is currently working with six commercial banks across the region to provide access to SME financing. Some IFC funds are being invested at least in Azerbaijan. Small business loans average $40,000 with maturities up to three years for such purposes as working capital, equipment and inventory financing.

- ***Bridging Products:*** Both Shorebank and FINCA have products and delivery vehicles to meet the needs of entrepreneurs who have outgrown micro loans, but do not have ready access to conventional financial intermediaries. The Shorebank Developing Enterprise Loan Program provides loans in the range of $1,000 to $12,000, with such features as more streamlined documentation procedures and more hands-on client support. These loans are offered through both commercial banks and non-bank finance companies.

- ***Non-Bank Financing:*** Shorebank seeks ways to meet SME financing needs for which standard bank credit is not practical. Shorebank has performed feasibility studies on establishing risk capital funds in Georgia and Armenia on behalf of the IFC.

- ***Enterprise Development:*** Shorebank is working with other USAID-supported programs to provide non-financial business support services, such as specialized training in marketing, networking, business associations and databanks.

The CSFP is currently moving locally recruited and trained staff into management positions in the region and is focusing its efforts on building and strengthening local financial institutions.

- **Agro Business Bank of Georgia (Technical Assistance to the Commonwealth of Independent States (TACIS))**

In February 2000, the Agro Business Bank of Georgia was established with the objective of providing a range of financial services targeted at the country's rural population. ABG has been established as a commercial bank and expects to develop along the lines of western European best practices. A "twinning" process with Rabobank of Holland has begun, and a branch network is being established to place the Bank where its customer base exists. In August 2001, the ABG had established five branches. These are at Gori, Tsnori, Marneuli, Telavi and Kutaisi. The target is for a network of 25 branches throughout Georgia in four years.

Also, by the summer of 2001, ABG had attracted nearly 500 deposit customers. For many this was their first experience working with a bank. The bank had also provided loans to some 160 customers totaling over GEL 5 million. For seed capital, an amount of GEL 6.9 million was allocated as Issued Share Capital and GEL 3 million as a subordinated loan. The following is a breakdown of loans by sector:

- Farmers/producers 77 loans/overdrafts totaling approximately 1,159,000 GEL
- Processors 51 loans/overdrafts totaling approximately 2,435,000 GEL
- Traders/retailers 35 loans/overdrafts totaling approximately 1,935,000 GEL

The bank's balance sheet reflects the active participation of ABG in the securities market under the auspices of the National Bank of Georgia, with some GEL 3.8 million (36% of assets) invested in Treasury Bonds. The loans totaled GEL 2.7 million (23% of total assets) with 9% of total assets (GEL 950,000) reflecting the Bank's participation in the inter-bank loan auctions. Thus, the bank had a liquidity ratio of 65% during the first year of operation. As of this writing, the income sources from the asset portfolio are:

- 33% from inter-bank credit auction.
- 23% from interest on loans.
- 21% on Treasury bonds.
- 11% from interest on deposits with correspondent banking relationships.

➢ **Bank of Georgia (BoG) (Shorebank)**

Bank of Georgia, a joint-stock company, is a universal banking institution following the transformation from a state bank in 1994. The bank serves over 10,000 businesses and 3,000,000 individuals, with assets exceeding 80 million GEL. The bank operates 32 branches, of which 10 are in Tbilisi.

The bank's assets are primarily made up of foreign currency. Eighty-seven percent of the Bank's loan portfolio is in foreign currency with the view to minimizing currency risk. Loans represent 58% of the Bank's investment portfolio, or about $22 million.

Bank of Georgia, in cooperation with Shorebank Advisory Services (SAS), began a new project called Small and Medium Enterprise Loan Program (SMELP) in 1999. SAS has provided the Bank of Georgia with an aggregate loan in the amount of US$500,000 for the purpose of stimulating small and medium-sized private companies outside Tbilisi. The duration of the credit line is 2.5 years. This line consists of a variable interest rate that directly depends upon the amount disbursed. That is, the higher the amount of the loan utilized, the lower the interest payable (various from 4.5% to 2.5%).

The types and characteristics of typical bank loans associated with the eight primary loan products of the Bank of Georgia are as follows:

- Loans for small and medium business development (in cooperation with DEG): Interest Rate of Annual 20-24%; Terms of 12-60 Months; and Volume of Loan, Max. $ 350,000.
- Loans for development of micro, small and medium business (in cooperation with EBRD): Interest Rate of Annual 20-24%; Terms of 12-48 Months; and Volume of Loan, Max. $20,000-400,000.
- Loans for small and medium business development outside Tbilisi (with Shorebank): Interest Rate of Annual 20%; Terms of 3-36 Months; and Volume of Loan, Max. $7,000-75,000.
- Loans for development of exporting agricultural enterprises (in cooperation with WB): Interest Rate of Annual in US $ 24%, in GEL 30%; Terms of 12-36 Months; and Volume of Loan, Max. $20,000-250,000.
- Mortgage Loans for corporate clients (in cooperation with IFC): Interest Rate of Annual 20% (Building & Equipment Repairs), 24% (Purchase & Construction); Terms of 3-60 Months; and Volume of Loan, Max. $1,000-250,000.
- Mortgage Loans for corporate clients (in cooperation with IFC): Interest Rate of Annual 18% (Building & Equipment Repairs), 20% (Purchase & Construction); Terms, 3-60 Months; and Volume of Loan, Max. $35,000 (Building & Equipment Repairs), $75,000 (Purchase & Construction).
- Loans for micro business development (in cooperation with EBRD): Interest Rate of Monthly 3% ($1,000-2,000), Monthly 2,5% ($2,001-5,000), and Monthly 2% ($5,001-10,000); Terms of 3-12 Months (Inventory), 6-24 M. (Fixed Assets, Building & Equipment Repairs); and Volume of Loan, $1,000-10,000.

- Consumer Loans (Pawn/Gold and Motor Vehicles): Interest Rate of Monthly 3%; Terms of 1-3 Months; and Volume of Loan, Up to $1,000.

➢ **Microfinance Bank of Georgia (MBG) (German Development Bank KfW, Dutch Finance Corporation)**

Microfinance Bank of Georgia (MBG) was created in 1998 to focus exclusively on the micro and small enterprise sectors. MBG has five branches: three in Tbilisi (Lilo, Gldani, and Vake Branches), one in Kutaisi, and one in Batumi. MBG is expected to open a branch in Poti shortly.

The bank is managed by IPC (Internationale Projekt Consult GmbH), IMI's sister company, and has introduced IPC methodology that is used in Russia, the Ukraine and elsewhere. Its main shareholders are: German-Georgian Foundation for the Promotion of Private Sector Development (GGF)/ German Development Bank (KfW) - 25%; International Finance Cooperation (IFC) -20%; TBC Bank -19.6%; Dutch Finance Corporation for Development Countries (FMO) -12%; Internationale Micro Investitionen AG (IMI) -12%; European Bank for Reconstruction and Development (EBRD) - 6%; and Others -5.4%.

The bank offers business and pawn loans in US dollars, Euros and GEL, and it has a total portfolio of $13 million.

- *Business Loans:* This portfolio is: 51% Trade, 27% Services, 13% Manufacturing, and 9% other. More specifically, MBG defines two market segments: micro loans (up to $10,000) and small loans (up to $100,000). About 85% of all loans are micro loans, which are usually for working capital needs with average amounts of $3,000 and maturities of 12 months. Small loans are for investment purposes and average around $25,000 with 15 months maturity.

- *Pawn Loans:* With amounts below $500 and short-term maturities up to 3 months, pawn loans are mostly consumer loans. In 2001, MBG lowered the interest rate to 3% per month, against a market average of 5-6% in Tbilisi and even higher in the in the regions. The steady growth of the portfolio to $1.1 million, 5,300 loans, justifies this interest rate reduction.

MBG's 30 loan officers have reached a high level of work productivity. Last year, the average loan officer disbursed 13 loans per month and administered a portfolio of 70 loans valued at $395,000.

➢ **TBC Bank (Shorebank)**

TBC Bank was established in December 1992 and is one of the first private commercial banks in Georgia. The bank was registered as a joint stock commercial bank in January 1993. It has four offices in Tbilisi, one in Borjomi, one in Rustavi, one in Kutaisi and one in Poti.

Since 1996, the bank received loans from the following institutions: TACIS (Technical Assistance to the Commonwealth of Independent States) Agricultural Programme, European Bank for Reconstruction and Development (EBRD), World Bank, International Finance Cooperation (IFC), and the German Investment and Development Company (DEG).

In cooperation with Shorebank Advisory Services and USAID, TBC Bank launched the Developing Enterprise Loan Program (DELP). The program facilitates the development of SME's through the provision of loans up to $12,000.

During the reconfirmation of the TBC Bank microfinance data collected for use in Table 2, it was determined that the Bank's responses had included all bank activities, which made the data not comparable to the information supplied by the other organizations. Consequently, the TBC Bank numbers were not included in the presentation.

# CHAPTER III. ANALYSIS OF ISSUES RELATED TO MICROENTERPRISE AND SME (MSME) FINANCE IN GEORGIA

The evaluation team was directed by USAID to address six major issues. These are:

I. *Major constraints to access to credit*
II. *Demand and supply of credit and related products and services*
III. *Existing and potential financial products supplied by banks and NBFIs*
IV. *Strengths, weaknesses, opportunities and threats relating to USAID funded credit institutions*
V. *Prospects for the sustainability of microfinance institutions*
VI. *Affiliations and partnerships between banking and non-banking institutions*

As described in Chapter 1, the team began by reviewing documents and meeting with USAID officials. They then designed and distributed questionnaires to 20 key individuals the Mission identified. The team also interviewed personnel from intermediary finance organizations and other institutions recommended by the Mission; visited sites in six diverse geographic areas[3] to obtain a realistic view from the field; interviewed borrowers in five of the six sites; and met with key individuals to discuss preliminary findings and conclusions.

A discussion of the findings and recommendations with respect to each of these six issues is presented below.

## ISSUE 1: MAJOR CONSTRAINTS TO ACCESS TO CREDIT

A primary thrust of USAID's mid-term review of its four-year strategic plan (FY 2000 – 2003), was to assess the extent to which credit made available by Mission supported programs was effective from three points of view: the institution, the product, and the clientele. Since the Mission's assumption was that there was much left to do, the first task of the evaluation team was to identify the constraints to adequate access to credit faced by the system's clients and the institutions trying to serve them.

***Summary of Findings:*** To address this issue the team gathered information through questionnaires and interviews in terms of the following six analytic categories: Legal, National and Local Regulatory, Operational (within institution), Operational (outside institution), Source of Funds, Stability of National Monetary System, and Stability of National Investment Climate. Respondents were asked to provide their judgements with respect to the major constraints to access to credit and for corrective actions that might be taken. Summaries of the most frequently identified constraints are provided in Table 3. A summary of the corrective measures suggested is provided in Table 4.

[3] Batumi, Gori, Kutaisi, Rustavi, Tbilisi, and Telavi.

**TABLE 3**

**Major Constraints to Increased Credit Access in Georgia**
**(Respondent Views)**

| Category | Constraints reported in order of frequency |
|---|---|
| ***Legal*** | • Difficulty in foreclosure procedures.* <br>• Difficulty in registering collateral.* <br>• Lack of protection of creditor rights. <br>• Unreasonable laws restricting commercial exchange of information on debtors. <br>• Lack of specific legislation providing a clear legal and tax status for microfinance institutions. |
| ***Regulatory*** | • Unfair and complex tax laws. <br>• Corruption and bureaucratic procedures force lenders and borrowers to resort to bribery to conduct many transactions. <br>• Lack of uniformity in application/implementation of laws and regulations.* |
| ***Operational*** (within institution) | • Lack of well defined policies and procedures, including internal controls. <br>• Inadequate personnel policies (incentives, training, turnover, corruption) <br>• Lack of timely and meaningful management information. <br>• High cost of funds. |
| ***Operational*** (outside institution) | • Lack of a centralized credit-reporting agency to assess credit history. <br>• Grant mentality due to prior and present subsidized programs. <br>• Difficulty in obtaining longer lending terms from IFIs |
| ***Source of Funds*** | • Lack of confidence in banks (resulting in low deposits) <br>• Reliance on donor and IFI funds. <br>• High cost of funds. <br>• Funds primarily of a short-term nature. |
| ***Stability of Investment Climate & Monetary System*** | • Past inflation and devaluations have caused a flight to "dollarization". Banks/borrowers bear foreign exchange risk on IFI loans. <br>• Corruption. <br>• Tax system. <br>• Above factors combined with depleted infrastructure hamper local and foreign investment. |

* We have reported responses as they were given to us. In fact, some answers fall into a "judicial" type category.

## TABLE 4

### Corrective Measures to Resolve Major Constraints to Increased Credit Access in Georgia (Respondent Views)

| Item | Corrective Measures |
|---|---|
| ***Legal*** | ***Most Frequent Questionnaire Responses***<br>• Draft Civil Code-Creditors Bill of Rights (Foreclosure protection that simplifies and speeds up court trials and results from court decisions)<br>• Draft Civil Code-Reliable Source of Information on Defaulted Borrowers<br>• Enact legislation creating a Security Interest Filing System<br>***Additional Responses from Participatory Session***<br>♦ Slow court processing (6 month on average)<br>♦ High cost of court service (about 1.5% for court services, raising costs up to 7% of loan)<br>♦ No fixed rate for court service (varies by region, amount of loan, notary, collateral pledged)<br>♦ On Collateral Registration Procedure, official term is 20 days and 7 GEL, but for quick response easier to give a bribe of US$ 100 for 3 day service<br>♦ Nationwide lack of uniformity in applying/implementing laws. |
| ***National Regulatory*** | ***Most Frequent Questionnaire Responses***<br>• Enact clear & reliable taxation legislation that provides simplification of taxation for small businesses<br>• Enact legislation that explicitly allows for the existence of non-bank financial institutions<br>***Additional Responses from Participatory Session***<br>♦ Complicated, cumbersome tax regulation, so total replacement is needed<br>♦ Collection of taxes should be enforced and with simple administration<br>♦ Nationwide lack of uniformity in applying/implementing Laws |

## TABLE 4

### Corrective Measures to Resolve Major Constraints to Increased Credit Access in Georgia (Respondent Views)

(Continued)

| Item | Corrective Measures |
|---|---|
| ***Operational*** **(Within institution)** | ***Most Frequent Questionnaire Responses***<br>• Set up clearly defined rules for institution & well developed internal controls<br>• Dedicated seminars & workshops<br>• Cost of funds from existing sources<br>• High cost of lending and supervision<br>***Additional Responses from Participatory Session***<br>♦ IAS should help firms get a better handle on their finances and thus understand their real costs<br>♦ High cost of funds is not caused by banks, but by international donors as local banks and non banks pay interest to IFI's<br>♦ Whether or not the borrowers can really afford 25-30% interest depends on the specific business sector<br>♦ Costs in excess of US$0.6 per US$1 lent was cited by one participant |
| ***Operational*** **(Outside institution)** | ***Most Frequent Questionnaire Responses***<br>• Pass clear and reliable Taxation Legislation that provides for independent accounting firms (adoption of IAS & CPA's) and restricted need for actual receipts of purchases for official registration & tax reporting.<br>• Adoption of a flat fee Notary System<br>• Set up a Credit Reporting Agency<br>• More flexibility for longer lending terms by IFI's<br>***Additional Responses from Participatory Session***<br>♦ A Nationwide Credit Reporting Agency had strong vocal support<br>♦ Notary fees of up to US$65 for some bank accounts were mentioned<br>♦ The implementation of International Accounting Standards (IAS) will be a long process<br>♦ IAS will be more beneficial to small and medium scale businesses than to micro loan size borrowers<br>♦ More importance should be given to updating the tax code than to adopting the IAS at this stage<br>♦ Need to create a national database for current information on all pledged collateral<br>♦ And term loans up to five or six years for production or processing equipment<br>♦ Need national legislation to encourage leasing as source of borrowed funds |

## TABLE 4

### Corrective Measures to Resolve Major Constraints to Increased Credit Access In Georgia (Respondent Views)

(Continued)

| Item | Corrective Measures |
| --- | --- |
| ***Source of Funds*** | ***Most Frequent Questionnaire Responses***<br>• MFI's need commercial funds, not just donor funds (no comments)<br>• Need Deposit Insurance of Savings Accounts<br>***Additional Responses from Participatory Session***<br>♦ Certain level of investor/ depositor protection is crucial for banks<br>♦ National Bank blocks 60 % of saving deposits in commercial banks, so deposit insurance would help banks attract more clients and funds<br>♦ Important for government to provide deposit insurance on savings accounts up to GEL 5K<br>♦ Need to continue to involve the IFI's as a founder in order to increase the people's trust in local banks<br>♦ With deposit insurance, foreign exchange risk could be moderated with deposits in GEL |
| ***Stability of National Monetary System*** | ***Most Frequent Questionnaire Responses***<br>• Central Bank Fix the Exchange Rate<br>***Additional Responses from Participatory Session***<br>♦ Borrowers' risk is related to exchange rate due to foreign exchange fluctuation (generally, borrowers sell production in GEL and make repayments in US$)<br>♦ The borrower has no protective action against this foreign exchange risk as this risk can not be hedged<br>♦ In case of devaluation, borrower would probably fail to pay loan |
| ***Stability of National Investment Climate*** | ***Most Frequent Questionnaire Responses***<br>• Favorable Taxation for Investors<br>• Governmental anti-corruption measures<br>• Keep inflation level stable<br>***Additional Responses from Participatory Session***<br>♦ Full acknowledgement of the necessity for stability but the need to attract foreign investment was not mentioned |

***Recommendations and Analysis:*** The findings presented above largely confirm the considerable work that had previously been done by USAID to identify constraints and seek corrective measures. Below, on the basis of the information obtained and drawing on their considerable experience and expertise, the team provides a set of seven recommendations for overcoming the major current constraints on access to credit in Georgia. The recommendations are presented in what the team believes is their general order of priority.

1. **Support drafting of a civil code establishing a "level playing field" for lenders and borrowers including: a bill of rights, clear and expedited process regarding defaults and a nationwide credit reporting agency.**

The current playing field is asymmetrically skewed in favor of the borrower. Lenders are more conservative because of extreme difficulties in obtaining credit information on applicants and collecting from defaulting borrowers. Exchange of credit information on applicants, even such a basic item as if the applicant has an existing loan is not allowed. There needs to be a clearly established right for lenders to be able to access credit information on applicants. This could be included in a bill of rights establishing the rights and responsibilities of both lenders and borrowers.

Additionally, there needs to be a repository for credit information that would serve to report 1.) Diligent borrowers' positive history and 2.) Marginal and defaulting borrowers poor credit records. This could enhance diligent borrowers' opportunities to obtain credit and allow prudent lenders to screen poor credit risks. Ultimately, this should offer lenders the opportunity to place more weight on an applicant's reputation and repayment history when considering loans.

Finally, the process of enforcing collection against defaulting borrowers needs to be clearly specified for courts and appropriate executing agencies to be able to follow through in a consistent and expedited manner. Part of the difficulty lies in inconsistent application nationwide of existing laws, even by the same judges.

2. **Support the judicial system to establish nationwide uniformity in implementing laws.**

Currently, there is lack of consistency in enforcing laws. Lenders are uncertain they will prevail in enforcing their collection efforts through legal process. Judges do not refer to previous rulings by other judges in making their decisions. They freely render decisions contrary to even their own earlier rulings. A system to make available precedents for reference in making decisions and guidelines for following these precedents could improve the consistency in implementing laws nationwide.

3. **Adopt a flat, nominal fee notary system.**

Present security documents for pledging collateral must be notarized. The fee is based on a percent of value of security rather than a flat fee. This is unreasonable and expensive for borrowers. This measure should be adopted as soon as possible and later specified as part of the system mentioned below in number 4.

4. **Support legislation to create a nationwide security interest filing system.**

There is no central registry where lenders can determine whether others have a security interest in collateral an applicant is pledging to the lender. Although some registries exist for real estate, it is not complete. A registry should be computerized and handle both moveable and non-moveable property. Such a system coupled with a level playing field for lenders and borrowers and more uniformity in upholding laws should expand the amount of property that borrowers could pledge as collateral for loans.

**5. Enact legislation/clear regulations allowing for the existence of non-bank financial institutions.**

The status of non-banks should be clearly established to allow them to fill the void not presently covered by banks. This includes clearly specifying their tax status.

**6. Enact clear and reliable tax legislation providing simplification of taxation for small businesses.**

Small businesses are reluctant to expand and attract the attention of tax authorities. The businesses that don't pay tax are not contributing to the national budget. Tax authorities often pressure businesses for payments in lieu of taxes. The national budget loses on this scenario, as officials pocket the funds that would otherwise go for taxes.

**7. Foreign Exchange Risk should only be transferred to micro and small borrowers, who are generating foreign exchanges**

The GEL is not regarded as a hard currency, so the exchange risk can be considerable, if the local borrower is obligated to repay a loan in a hard currency. Funds provided by international donors or international lenders are supplied in hard currency. Banks and NGOs are onlending the funds in hard currency or in GEL indexed to a hard currency. The result is that borrowers are bearing the foreign exchange risk. For borrowers who are generating foreign currency in the normal course of operations this lending mechanism is acceptable. The majority of small and micro borrowers is generating income only in GEL and should not be burdened with bearing foreign exchange risk. Since the NGO's do not return the USAID funds, there is no reason to cause the local borrower to absorb any foreign exchange risk or cost.

## ISSUE 2: CREDIT DEMAND AND SUPPLY

A second issue of critical importance that the team was asked to address is the extent to which the demand for credit exceeds its supply. Respondents were asked to provide their judgements separately for banks and non-banking institutions. For each, they were asked to estimate the relationship between demand and supply for the country overall and by region, and for the market as a whole and for various types of sources or products. For each category of relationship, they were to indicate whether they judged that demand exceeded supply by 0%, 25%, 50%, 75%, or at least 100%.

***Summary of Findings:*** Tables 5 and 6 provide summaries of the responses from the questionnaires for each of the two major types of institutions. A narrative summary of each table is provided below.

Non-bank category: Eighty two percent (82%) of the responses in the non-banking category indicated excess demand for credit of at least 25%. This position is further reinforced by the responses to the supply-side question (How much does supply exceed demand?) in which the majority (66%) indicated there was no supply in excess of demand.

# TABLE 5

## Respondents Indication of The Percentage That Demand for Credit Exceeds Supply – Non-Bank Sector

| | | | 0% | 25% | 50% | 75% | ≥100% |
|---|---|---|---|---|---|---|---|
| ***Non-Bank Category*** | | | | | | | |
| **(USD)** | **Loans** | **No. & % of Responses** | | | | | |
| < $1,000 | (micro) | (11 & 30%) | | 2 | 1 | 5 | 3 |
| $1,000 - 5,000 | (transition) | (6 & 17%) | | 1 | 1 | 3 | 1 |
| $5,000 - 10,000 | (transition) | (6 & 17%) | | 2 | | 3 | 1 |
| > $10,000 | (small) | (13 & 36%) | 1 | 5 | 4 | 2 | 1 |
| **Total** | | (36 & 100%) | 1 (1) | 10 (29) | 6 (17) | 13 (36) | 6 (17) |
| | | | | | | | |
| Pawn Shop Loans | | | | | | | |
| - Gold | | (7) | 6 | 1 | | | |
| - Non- gold | | (8) | 7 | 1 | | | |
| | | | | | | | |
| Vendor Credits | | | | | | | |
| - From Vendors | | (6) | | 4 | 1 | | 1 |
| - From Others | | (8) | | 5 | 2 | | 1 |
| | | | | | | | |
| Rotating Savings and Credit Assoc. (Latarea) | | | | | | | |
| | | (8) | 4 | | 4 | | |
| | | | | | | | |
| Family and friends | | (9) | 2 | 3 | 3 | 1 | |
| | | | | | | | |
| Other Loans (Specify _*Loan Shark*_) | | (2) | | 2 | | | |
| | | | | | | | |
| Agricultural Loans | | | | | | | |
| SEED Loans | | (11) | | 1 | 1 | 1 | 8 |
| | | | | | | | |
| Other Production Loans | | (7) | | 1 | 1 | 3 | 2 |
| | | | | | | | |
| Other Agricultural Loans | | (6) | | | 1 | 3 | 2 |
| (Specify: *Cattle, fixed assets*) | | | | | | | |
| Other | | | | | | | |
| Residential Improvement Loans | | (11) | | 1 | 6 | 3 | 1 |
| | | | | | | | |
| Financial Advisory Services | | (7) | 2 | 2 | 1 | | 2 |
| | | | | | | | |
| Grant /Loan Type | | (5) | | | | 3 | 2 |
| | | | | | | | |
| Government Credits | | | | | | | |
| - National | | (4) | 1 | 1 | 1 | | 1 |
| - International | | (3) | 1 | | 1 | 1 | |
| | | | | | | | |
| **TOTAL** | | **(138)** | **24** | **32** | **28** | **28** | **26** |
| **Percent of Total** | | **100** | **18** | **23** | **20** | **20** | **19** |

## TABLE 6

### Respondents Indication of The Percentage That Demand for Credit Exceeds Supply – Banking Sector

| | | 0% | 25% | 50% | 75% | ≥100% |
|---|---|---|---|---|---|---|
| ***Bank Category*** | | | | | | |
| **Short Term** | **No. & % of Responses** | | | | | |
| Consumer Loans | (13) | | 3 | 3 | 4 | 3 |
| Asset Loans | 11 | | 4 | 2 | 4 | 1 |
| Commodity Loans | 11 | 1 | 3 | 4 | 2 | 1 |
| Working Capital Loans | 13 | 1 | 4 | 3 | 4 | 1 |
| Loans Line of Credit (overdraft) | 12 | | 5 | 1 | 5 | 1 |
| Pawnbroker Loans<br>- Gold<br>- Non-gold | 11 | 7 | 3 | 1 | | |
| **Sub-total Short Term** | **(71 & 51%)** | **9** | **22** | **14** | **19** | **7** |
| **Longer Term** | | | | | | |
| Real Estate Loans | 13 | 1 | 4 | 3 | 3 | 2 |
| Land Loans | 9 | 1 | 1 | | 2 | 5 |
| Home Improvement | 13 | | 5 | 2 | 3 | 3 |
| Leasing | 11 | | 1 | 3 | 1 | 6 |
| Agricultural Loans | 10 | | | 4 | 4 | 2 |
| **Sub-total Longer Term** | **(56 & 41%)** | **2** | **11** | **12** | **13** | **18** |
| **Other** | | | | | | |
| Financial Advisory Services | (11& 8%) | 4 | 2 | 1 | 3 | 1 |
| **Total** | **(138 & 100%)** | **15** | **35** | **27** | **35** | **26** |
| **Percent of Total** | **100** | **11** | **25** | **20** | **25** | **19** |

The one product that is either in equilibrium or in oversupply is pawnshop loans. A full 12 percent of responses to the supply-side question indicated that supply for pawnshop loans exceeded demand by 50%.

Responses over the size range of loans were evenly split among micro (<$1,000) transition ($1,000-$10,000) and small (>$10,000). Vendor credit, either through the vendors or from others was the product most desired, with 10 % of responses indicating a demand for the product. After vendor credits, the SEED type agricultural loans and residential improvement loans were most popular, each with about 8% of the responses.

Most borrowers, interviewed by the team, expressed plans/expectations to access credit for improving their businesses. They look to their present lenders to continue supplying credit.

Bank category: There is a markedly stronger sentiment in the bank category that demand for credit exceeds supply. Ninety one percent of responses indicated excess demand of at least 25% beyond present supply. Responses to the supply-side question supported this figure. Similar to the non-bank category, pawn-brokering loans were readily available. Short-term loans were more in demand (56%). However, a full 44% of credit responses were in the longer-term category. The team noted sentiment for longer-term loans during interviews with both borrowers and lenders. This is significant in view of the minimal capital investment noted by the team during its travels.

Within the short-term category, the loan type most in demand was for business purposes (asset, commodity, working capital and line of credit). However, 18% of responses indicated potential for consumer loans. Regarding business purposes, investment (asset) loans were in the minority while working capital (commodity, working capital, line of credit) loans were most in demand. Preference for flexibility in loan type is evident in that types not now available (commodity loans and lines of credit) were rated almost as highly as the conventional working capital loans.

Longer-term credit is a significant issue and demand is spread fairly evenly over diverse types. As with the non-bank category, significant demand exists for home improvement loans. Real estate loans registered equal demand to home improvement loans. Similar non-bank borrowers, bank borrowers interviewed expressed plans to continue borrowing in the future. Access to credit is a key issue for both groups.

Target groups: In line with USAID's dual purpose of economic growth and meeting the needs of those groups not served by the existing institutions, the team also analyzed the responses regarding supply and demand by size of loan, making the assumption that economic power and credit capacity are related. The three broad categories listed for loans, micro (<$1,000), transition ($1,000-$10,000) and small (>$10,000) represent distinct target groups. As Table 5 shows, there is significant demand in each of the three categories.

***Recommendations and Analysis:*** There is overwhelming evidence that overall demand for credit exceeds the present supply by a substantial amount. Results of the questionnaire, the interviews and the participatory session all support this conclusion. Results from the questionnaire were not conclusive on regional differences, but there is evidence from interviews that the supply of group micro loans is closer to demand in Tbilisi. The reader is cautioned that the strong indication of demand is simply that – a market preference statement. It is not an indication of capacity to repay. Overall, there was little emphasis on demand for financial advisory services in both the bank and non-bank categories. This lack of interest in financial/business advice is supported in the USAID-funded report of May 1999, *Small and Medium Enterprise Development in Georgia: Assessment and Recommendations for USAID's Strategy.*

The team's recommendations with respect to this issue are as follows:

**1. Provide pools of funds denominated in GEL to handle new and additional loans.**

The Team noted that the supply of funds is a significant problem in Georgia although there are reportedly large amounts of funds outside the banking system. Individuals and businesses lack confidence in the banking system and therefore there is a shortage of deposits from which lending can occur. The supply of GEL lending funds should be enlarged.

**2. Support nationwide deposit insurance of GEL savings accounts for up to GEL 5,000.**

Without fear of inflationary expectations or stability of a specific bank, prudent investors/savers need the protection of insurance on their basic savings, regardless of country. The best source of capital accumulation over time is the collective savings of both individuals and businesses. The leadership and the sponsor of this deposit insurance, as in other countries, must be the Central Bank or it's agency.

**3. USAID should use technical assistance support to encourage specific lender groups to serve specific categories of borrowers.**

The three broad categories listed for loans, micro (<$1,000), transition ($1,000-$10,000) and small (>$10,000) represent distinct target groups. The below $1,000 category is mainly the domain of NGOs and applies to both group and individual methodology. The transition loans theoretically represent borrowers who have advanced well through progressively larger loans from NGOs, but are still deemed not bankable. By Georgian standards, $10,000 is a fairly large sum for a borrower, considering most banks limit branch authority to $1,000. There is widespread agreement that loans above $10,000 are better handled by larger, well-managed financial organizations because more sophisticated analyses are required on the larger loans.

## ISSUE 3: FEASIBILITY OF NEW PRODUCTS

The third area the assessment team was to investigate is the demand for existing financial products supplied by banks and NBFIs, and the demand for new products and/or the expansion of the existing supply.

***Summary of Findings:*** The data presented in Tables 5 and 6 can be used as a basis for assessing demand for currently available products. To obtain insight into the extent of demand for potential new products, respondents were asked to estimate the extent to which demand exceeds supply for twelve products potentially supported by USAID. The responses to the questions regarding potential USAID supported products are summarized in Table 7.

***Analysis and Recommendations:*** The data in Tables 5 and 6 indicate that demand well exceeds supply for almost all types of existing financial products. The most notable exception is Pawnbroker Loans, the need for which nearly all those contacted believe has been met. The perceived unmet demand for Financial Advisory Services is quite mixed. The team believes that this is due in some cases to lack of knowledge, and in others to an apparent lack of public interest.

Of the potentially available products listed in Table 7, some are not available for infrastructure reasons. A major constraint on leasing, for example, is that there is no legal basis for leasing in Georgia. Interested parties are reluctant to begin this activity without supporting legislation. Regardless of the reason for their current unavailability, however, the respondents to the questionnaire and the persons the team interviewed expressed overwhelming interest in USAID assistance in the development of new products. Table 7 shows that all potential loan products had demand in excess of supply of at least 25%. A full 28% of the product responses indicated demand in excess of supply of 50% or lower. Over 70% of the responses indicated demand in excess of supply of more than 50%.

**TABLE 7**

**Respondents Indication of The Percentage That Demand for Potential Financial Products Exceeds Supply**

| | | 0% | 25% | 50% | 75% | $\geq$100 |
|---|---|---|---|---|---|---|
| ***Possible USAID Assisted Products*** | | | | | | |
| Equipment Loans | (13) | | 4 | 3 | 4 | 2 |
| Equipment Leasing | (10) | | 1 | 3 | 2 | 4 |
| Real Estate Purchase | (12) | | 3 | 6 | 2 | 1 |
| Building Improvement<br>- Residential<br>- Commercial | (19) | | 9 | 3 | 5 | 2 |
| Leasehold Improvements | (6) | | 2 | 1 | | 3 |
| Land Purchase | (10) | | 1 | 4 | 3 | 2 |
| Lease Purchase | (8) | | | 4 | 1 | 3 |
| Production Loans | (12) | | 2 | 6 | 2 | 2 |
| Business Loans | (13) | | 5 | 1 | 3 | 4 |
| Insurance | (22) | 3 | 3 | 4 | 5 | 7 |
| Loan Products: | | | | | | |
| - Targeted to Women | (10) | 1 | 4 | 3 | 2 | |
| -Targeted to Men | (10) | | 4 | 2 | 4 | |
| | | | | | | |
| **Total** | **(145)** | **4** | **38** | **40** | **33** | **30** |
| | | | | | | |
| **Percent of Total:** | **100** | **3** | **26** | **28** | **23** | **21** |

The interest in new products may be the result of the rather unimaginative financial products currently being offered by most financial institutions in Georgia. A recent USAID-financed survey of financial products[4] concluded that there was no market or product differentiation in Georgia. Financial institutions are not able to perform their usual function of intermediation due to the low or non-existent confidence in the banking system. Banks may have more interest in diversifying their range of financial products if they have significant deposits.

The products in greatest demand are building improvement loans and insurance products. These were followed by business loans, equipment loans, production loans and real estate purchase loans. The team's experience with persons interviewed and the participatory session was that

[4] McInerney, Colette, Capital Products Survey, Tbilisi, Georgia, December 2000.

there is strong interest in longer-term credit than is generally available now. Equipment leasing and land purchase also had significant interest.
The team's recommendations with respect to this issue are as follows:

1. **Support changes in laws and regulations that facilitate the availability of such new financial products as leasing as a source of borrowed funds.**

Leasing should not be considered a lending program but an additional source of funds and a lending tool. With the existing orientation of collateral based lending, leasing is natural extension of asset based lending, particularly with assets that can be reclaimed and resold easily.

2. **Provide banks with TA support as to "best practices" in Leasing Technology.**

Banks do not currently have experience or expertise in leasing, and for this to become a significant financial product it will be necessary for the leasing institutions to develop systems and a cadre of trained personnel.

3. **Support implementation of legislation to establish an easily accessible Chattel Mortgage Registration System and other initiatives to foster clear and comprehensive Real Estate Registration and Title Insurance.**

Again, the unavailability of adequate real estate and land purchasing products is beyond the scope of any one institution to resolve. There are legal and human resource infrastructure constraints that will require concerted effort on the part of Georgia, with external assistance, to overcome.

## ISSUE 4: STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS RELATING TO USAID FUNDED CREDIT INSTITUTIONS

A fourth major objective of the assessment was to provide the Mission with an assessment of the Strengths, Weaknesses, Opportunities and Threats of the organizations receiving USAID support. To deal with the financial institution and its efficiency in reaching its (and USAID's) target markets, the team asked each of the institutions with which USAID is now affiliated for a SWOT analysis. Representatives of the organizations were asked to respond in terms of the following five categories:

- Sustainability
- Governance
- Internal Controls
- Products
- Market Position

***Summary of Findings***: Each of five USAID-funded credit institutions provided a SWOT analysis related to the specific categories identified above. The responses from these credit institutions are summarized in Tables 8, 9, 10, and 11.

# TABLE 8

## Issues Related to Strengths and Weaknesses of USAID-Funded Non-Bank Credit Institutions (Respondents' Comments)

| Topic | Constanta (Save the Children) | FINCA/Georgia (FINCA) | Enki Foundation (ACDI/VOCA) |
|---|---|---|---|
| ***Sustainability:*** | | | |
| **Strengths** | Operationally and financially sustainable.<br>Taxation could affect sustainability.<br>Tax exempt under USAID Grant Agreement. | FINCA follows targeted parameters and operations plan | High repayment<br>No loan losses<br>Capitalization |
| **Weaknesses** | While it is not clear how MFIs will be taxed Constanta could not be sustainable. | Discrepancies in legal status of MFI's | Local management |
| ***Governance:*** | | | |
| **Strengths** | New enthusiastic Governing Board | Well completed management structure | Stringent oversight<br>Borrower ownership |
| **Weaknesses** | NGO Board is very week structure in general.<br>NGO governance countrywide | | Inexperienced local management |
| ***Internal Controls:*** | | | |
| **Strengths** | Well set up policies and procedures, clearly defined responsibilities. | Well defined employees rights and.<br>Internal audit system | Local knowledge<br>IAS |
| **Weaknesses** | Lack of experience in internal auditing | | Poor accounting software<br>Poor real-time data |
| ***Products:*** | | | |
| **Strengths** | Well tailored to the current demand | Group and individual products | High demand<br>Low market rate<br>High flexibility |
| **Weaknesses** | Limited choice of products | Existing lending risk does not allow portfolio diversification | Limited primarily to 1-3 year loans |
| ***Market Position:*** | | | |
| **Strengths** | Fair competition or no competition at all | Stable and sustainable | Favorable terms<br>Borrower trust |
| **Weaknesses** | Low economic activity in some regions | Maximum loan size is less than $5000 | Low-moderate capitalization |

## TABLE 9

### Issues Related to Strengths and Weaknesses of USAID-Funded Bank Credit Institutions (Respondents' Comments)

| Topic | TBC Bank | TBC Bank (From Shorebank) | Bank of Georgia (From Shorebank) |
|---|---|---|---|
| ***Sustainability:*** | | | |
| **Strengths** | Financial Stability | Underwriting Methodology transferred from SAS | Very small |
| **Weaknesses** | Macro Environment | Small business loans could be stopped | BoG will use their own methodology as soon as SAS leaves<br>Doubtful financial position of the bank |
| ***Governance:*** | | | |
| ***Strengths*** | Young Management | SAS participates on the level of strategic planning of TBC | High level of the sensitivity from the top Management |
| ***Weaknesses*** | Lack of long term advisory support | Risk management systems/portfolio control plans were only recently introduced | Limited resources dedicated to the program |
| ***Internal Controls:*** | | | |
| **Strengths** | Internal regulations and procedures | Systems were introduced | I/N/A from the partner side. Usual SAS procedures |
| **Weaknesses** | Current software inadequate | Policies and procedures not clearly articulated | Policies and procedures not clearly articulated |
| ***Products:*** | | | |
| **Strengths** | Range, Customer oriented | SME lending is established as core for the bank | Bank shifts from the financing of government organizations to SMEs |
| **Weaknesses** | Offerings hindered by legal environment | No retail banking products | Risky because of the regional nature of the product; RE – new product for Georgia |
| ***Market Position:*** | | | |
| **Strengths** | Big market share | SAS assisted portfolio is 2% of total Georgian Market | RE residential loans were introduced on Georgian market<br>We have 1.5% of total Georgian market in BoG |
| **Weaknesses** | Insufficient coverage of market | More complicated procedures comparing with other credit institutions | RE residential loans were introduced on Georgian market<br>We have 1.5% of total Georgian market in BoG |
| ***Other:*** | | | |
| **Strengths** | Innovative bank, good reputation | Cash Flow Based Lending | Cash Flow Based Lending |
| **Weaknesses** | Insufficient branch network | | |

## TABLE 10

### Issues Related to Opportunities and Threats Facing USAID-Funded Non-Bank Credit Institutions (Respondents' Comments)

| Topic | Constanta (Save the Children) | Enki Foundation (ACDI/VOCA) |
|---|---|---|
| ***Sustainability:*** | | |
| **Opportunities** | Stable development of the organization<br>Demand for microloans | Continued TA |
| **Threats** | Unclear organizational status and taxation | Inexperienced local management |
| ***Governance:*** | | |
| **Opportunities** | Enthusiastic and interested board. | Continued TA |
| **Threats** | Inexperience | Inexperienced board members |
| ***Internal Controls:*** | | |
| **Opportunities** | Continually updating manual<br>Qualified staff | |
| **Threats** | Lack of experience in internal auditing | Poor accounting system? Currency system? |
| ***Products:*** | | |
| **Opportunities** | Development of existing and new products based on proper marketing | Leasing<br>Long term loans |
| **Threats** | Limited number of services | Presently limited to short-medium term loans |
| ***Market Position:*** | | |
| **Opportunities** | Lack of credit service in the country | Easy expansion |
| **Threats** | Unfair competition | |
| ***Other:*** | | |
| **Opportunities** | | Good position for future funding |
| **Threats** | | Potential government intervention |

## TABLE 11

### Issues Related to Opportunities and Threats Facing USAID-Funded Bank Credit Institutions (Respondents' Comments)

| Topic | TBC Bank | TBC Bank (From Shorebank) | Bank of Georgia (From Shorebank) |
|---|---|---|---|
| ***Sustainability:*** | | | |
| **Opportunities** | Further increase of capital | Growth market for retail banking in RE and small loans | After restructuring BoG can implement more focusing strategy and devote more resources to regional projects<br>RE could become one of the core components of BoG portfolio |
| **Threats** | External factors | TBC could stop doing small and “expensive” loans | Currently BoG stopped underwriting of the regional projects because of the restructuring |
| ***Governance:*** | | | |
| **Opportunities** | Sharing of western experience | TBC could develop a separate division for smaller loans | BoG can built effective procedures using it’s 33 branches and cover all Georgia |
| **Threats** | Problems related to fast growth | TBC can opt ant doing smaller size loans | BoG can do it’s restructuring for a long period of time |
| ***Internal Controls:*** | | | |
| **Opportunities** | New software; Full insurance package | Developing of Risk management and portfolio control plans | Introduction of risk management system for branches |
| **Threats** | Inadequate procedures | Lack of the portfolio analysis could drive to the high number of problem loans in case of the economic downturn | Deterioration in quality due to in adequate reporting |
| ***Products:*** | | | |
| **Opportunities** | New products and services | Developing retail banking | Use more strict underwriting criteria for SME’s |
| **Threats** | Underdeveloped legal base | New products could be considered as cost ineffective due to weak accounting standards | RE was a start up product in Georgia |
| ***Market Position:*** | | | |
| **Opportunities** | Further increase of market share | Increased market share due to new products and cross selling | RE could become the killing concept for the bank<br>SME’s expansion through branch system |
| **Threats** | Increased competition | Conservative underwriting and procedures by loosing market | Risks of the new product and pure underwriting in the regions. |

***Analysis and recommendations:*** Overall, one can differentiate the banks from the non-banks.

Banks: Based on the bank responses, there is a fair probability that the present programs would not continue if the current technical assistance stopped. The banks are not necessarily convinced of the profitability of the loans. With total costs of about 70 cents per dollar disbursed, the banks are clearly right. Overall, SWOT comments on the banks indicate that without a source of outside funding and further TA/ training, one could not expect banks to remain interested in SME lending. Capacity building as well as access to further funding is clearly in order.

<u>Non-Banks:</u> Constanta and FINCA are both operating with methodologies that are proven. They offer a limited number of products. As non-banks there is a question as how to register their status as a financial organization. This is an issue requiring legislation to address. Taxation is also another issue affecting sustainability. The Enki Foundation, which will be consolidated with the rural credit associations into the National Rural Credit System, faces similar challenges. All three organizations will require further time to develop depth in governance, which is shallow at present. This is not as indication of shortcomings in technical assistance support, but recognition that developing management and boards requires some time. The age of the present organizations is not sufficient for that to have developed.

Constanta's board is the longest established and is in the most likely position to begin functioning like a board. The National Rural Credit System is in the process of creation and it will also need board support. FINCA is developing local staff, but the structure it will assume and the nature of its the governing board is unclear. Accordingly, the board of Constanta should be accorded the opportunity for ongoing specialized training to strengthen their ability to govern. This should be also extended to the board of the National Rural Credit System, and once established, FINCA's board. The Team believes this support is needed. During its interviews, the team was told that poor governance was a prime reason for the failure of a recent credit union project funded by another international organization.

The team’s recommendation with respect to this issue is as follows:

1. **Continue TA support to the present institutions in the areas of management, board development, and internal controls.**

This support should include dedicated seminars and workshops.

## ISSUE 5: PROSPECTS FOR THE SUSTAINABILITY OF MICROFINANCE INSTITUTIONS

After analyzing the basic strengths and weaknesses of the institutions, the team addressed the issue of long-term institutional viability. The issue is essential in terms of USAID’s own strategy for the allocation of scarce resources. USAID must allocate its time and money among the projects led by institutions that are likely to be able to carry them on once USAID is gone.

***Summary of Findings:*** To assess the degree of sustainability of the financial institutions with which USAID works, respondents to questionnaires and in-person interviews were asked to comment on each of five dimensions of financial institutional sustainability: Management, Personnel, Checks and Balances, Market, and Funding. A summary of the responses received is presented in Table 12.

***Analysis and Recommendations:*** Concentrating first on management issues, 83% of management category responses indicated that these issues were addressed adequately or better. Inadequate compensation of local managers was the primary deficiency among management issues for those indicating an inadequate level of sustainability.

## TABLE 12

### Operational and Financial Sustainability Rated by Responses

| | | Inadequate | Adequate | More than Adequate |
|---|---|---|---|---|
| ***Operational Sustainability:*** | | | | |
| | | | | |
| **a. Transition from TA to Local Control:** | | | | |
| Transition from T/A to local | (10) | 2 | 7 | 1 |
| Management succession | (14) | 2 | 11 | 1 |
| Independence of local management from local pressures | (14) | 1 | 11 | 2 |
| Adequacy of compensation of local managers | (14) | 4 | 9 | 1 |
| **SUB-TOTAL *Transition Issues*** | **(52)** | **9** | **38** | **5** |
| **SUB-TOTAL *Transition Issues %*** | **(100)** | **17** | **73** | **10** |
| **b. Personnel Issues** | | | | |
| Training | (15) | 7 | 7 | 1 |
| Organizational structure | (15) | 5 | 7 | 3 |
| **SUB-TOTAL *Personnel Issues*** | **(30)** | **12** | **14** | **4** |
| **SUB-TOTAL *Personnel Issues %*** | **(100)** | **40** | **47** | **13** |
| **c. Checks and Balances** | | | | |
| Policies | (15) | 1 | 11 | 3 |
| Procedures | (15) | 1 | 13 | 1 |
| Internal controls | (15) | 3 | 11 | 1 |
| **SUB-TOTAL *Checks and Balances*** | **(45)** | **5** | **35** | **5** |
| **SUB-TOTAL *Checks and Balances %*** | **(100)** | **11** | **78** | **11** |
| **d. Market Issues** | | | | |
| Pricing of products | (14) | 4 | 6 | 4 |
| Size of market | (15) | 2 | 8 | 5 |
| Expansion of products and geographic areas | (15) | 3 | 8 | 4 |
| **SUB-TOTAL *Market Issues*** | **(44)** | **9** | **22** | **13** |
| **SUB-TOTAL *Market Issues %*** | **(100)** | **20** | **50** | **30** |
| **e. Funding Issues7** | | | | |
| Original funding | (14) | 3 | 10 | 1 |
| Uninterrupted on-going funding | (13) | 5 | 5 | 3 |
| Diversification of funding sources | (13) | 6 | 6 | 1 |
| **SUB-TOTAL *Financial Sustainability*** | **(40)** | **14** | **21** | **5** |
| **SUB-TOTAL *Financial Sustainability %*** | **(100)** | **35** | **53** | **12** |
| ***TOTAL*** | ***(211)*** | **49** | **130** | **32** |
| ***TOTAL %*** | ***(100)*** | **23** | **62** | **15** |

Personnel issues were the ones cited as least adequately addressed with 40 % of this category's responses indicating inadequacy. Training was the issue most frequently cited as deficient.

By contrast, the category of checks and balances was deemed the least inadequate with only 11% of the responses on checks and balances reflecting inadequacy. Of the 11%, internal controls were cited most often. The team's impressions are that internal controls are a much more serious issue than this portion of the survey revealed. Internal controls were also cited as deficiencies often in the SWOT section.

Product pricing, and expansion related to product and geography accounted for most of the "inadequate" ratings (20%) in the market category. The team noted a limited range of products during its visits as well as a strong tendency to concentrate on certain geographic areas.

Regarding the three issues in the funding category, respondents indicated inadequacies in 35% of their replies. Although original funding did not appear to be a great problem, uninterrupted on-going funding and diversification of funding sources appeared problematic. It appears there are often insufficient plans in place to support growth with diversified and uninterrupted funding. Several small institutions visited indicated that new loans were restricted while waiting for funds from existing loans. Some of these institutions are saddled with high costs as staffing exceeds what is required for their present limited portfolio. They are unable to service the present market, let alone expand into new geographic areas.

The team's observations are that total costs of operations are high and many portfolios are too small to cover them. The limited scale of the small programs causes overhead to be a burden. Focus alone on the percentages of operational and financial sustainability may ignore the real issues behind the figures. All institutions surveyed need to grow significantly. Due to the heavy demand in the market, institutions are able to pass on the high cost of operations to their borrowers.

Their present technical assistance suppliers heavily influence the organizations, but this is not a problem at present. However, in the future, more development efforts will need to be placed on boards and management, the local personnel who will carry on efforts when TA ends. The fact that local management was reported to not be influenced by local pressures may be less of a reflection on their capacity than the presence of foreign advisors serving as watchdogs.

In sum, donors tend to provide two very expensive things: funds and management. Evaluations tend only to look at replacement funding when discussing sustainability. However, financial institutions are made or broken by keeping their overhead low. The most expensive portion of their overhead is salary. The people they train properly who will manage portfolio growth without succumbing to the temptation to lower credit standards while doing so are the ones that will sustain the institution after the donors leave.

The team’s recommendations with respect to this issue are as follows:

1. **Encourage consolidation and increased scale for all credit institutions. This should improve prospects for sustainability and help to reduce the unit cost of lending and supervision.**

The existing “spread” between cost of funds to lend and the interest rate charged is 12 to 24 percent per year assuming that the direct and/or indirect cost of funds are about 12 percent per year. The cost to train credit supervisors for a new program and to qualify first time borrowers is high but repeat borrowers and higher volume of loans should allow the reduction of the spread as the lending institutions become more efficient.

2. **New credit projects or existing ones applying for additional operational or loan capital funding should be reviewed based on a plan which addresses how the organization will obtain uninterrupted and diversified ongoing funding**.

3. **USAID should encourage adoption of a uniform tool to project and calculate measures of sustainability. MicroFin is an example that also would allow for uniform planning and reporting.**

4. **Increased emphasis is needed on developing management and boards to carry out the mission of the various organizations.**

## ISSUE 6: AFFILIATIONS AND PARTNERSHIPS WITH OTHER INSTITUTIONS

The final issue to be addressed by the assessment team was the current status of and potential for affiliations and partnerships between banking and non-banking institutions. The issue is relevant to the Mission's general interests in fostering long term sustainability. To the extent that relationships can be encouraged and established between the different players in the field of business finance in Georgia, be they NBFIs working together or with banks or other financial institutions, the financial sector and the products and services offered stand to be strengthened, and coverage potentially would be expanded to a broader spectrum of clients with differing financial needs.

***Summary of Findings:*** The team suggested in its questionnaire that there were various ways of forming partnerships and affiliations that both non-bank and formal financial institutions could consider as ways of expanding their capacities and impacts on the field of Micro and SME finance. These partnerships or affiliations could be based on joint lending, portfolio purchases or transfers, shared services, and loan guarantees. The responses to our questions are provided in Table 13 below.

The responses can be divided into those from banking and non-banking institutions.

<u>Non-Bank Responses</u>: All non-bank institutions reported working with banks at the present time. At a minimum, they have bank accounts for holding unused loan and operating funds. Some disburse loans and collect repayments in cash. Others use bank services to disburse loans and collect repayments through accounts set up for this purpose. In the case of Constanta in Batumi, it has a computer link to the information system in the Microfinance Bank of Georgia's (MBG) branch, and is able to monitor borrower payments without walking to the bank. There is mutual cooperation and this relationship is likely to develop into a commercial lending relationship where Constanta could access funds from MBG for on-lending.

<u>Bank Responses:</u> Microfinance Bank, as was indicated above with Constanta, is interested in working with MFI's, providing banking services and possibly re-financing. The other non-specialized banks are less prepared to undertake re-financing, most likely because they do not feel comfortable with small borrowers who lack hard collateral and may require costly supervision. Banks were interested in accessing international loans and USAID guarantees and they seemed to recognize these affiliations as positive for their future security and growth.

As indicated in Table 13, the primary respondents to the questions posed on affiliations and partnerships were banks and NGOs that have on-going relations with the banks and that place specific emphasis on micro, small and medium enterprises in their overall programs. The responses verify that these institutions are planning for the future and realize that affiliations or partnerships represent alternatives for them to consider when developing their strategies for medium and long term sustainability. At some point, this issue is one that all institutions will have to face as their project contracts approach their termination dates.

Since most micro-loans cannot meet "conforming loan criteria" of a commercial lender, the need to find a flexible affiliation or partnership is evident. FINCA and The National Rural Credit System will both require access to commercial funds and there may be a formal financial sector source of funds that would want to team up with these operations to move their money to a broader spectrum of clientele.

### *Affiliations and Partnerships – further observations*

From our responses it seems that lenders whose focus is typically on humanitarian relief and not MSME development, as contrasted to those mentioned in the preceding three paragraphs, provided only a few responses to the Affiliation/Partnerships question. This suggests that those institutions may still be focussed on the possibility of receiving increased donor financed new funding. They do not appear to believe in Affiliations/Partnerships as alternatives or opportunities. Or, perhaps, they simply have not given the prospect much thought and attention yet.

Institutions that do not have good long-term prospects generally have one or both of the following problems:

1) Their management or personnel is not sufficiently adept to maintain the viability of the institution, and/or;
2) They do not have funding sufficient in quantity and tenor to reach breakeven with their overhead.

During the session with institutions it was clear that occasionally projects simply were not designed to continue beyond a set date. In general, these organizations were aware of the need to find "a safe home" for their loan assets, implying the need to transfer them to another institution. In those cases, the problems need to be remedied in a way that protects the on-going integrity of the problem institution and/or loan capital, at a minimum. In some cases, affiliations or partnerships, as they are intended in this document, could be a vehicle for doing this.

The team's recommendations with respect to this issue are as follows:

1. **In order to sustain existing activities and have a foundation for growth, USAID should request that each institution needing additional funds to reach operational or financial sustainability, do a strategic plan.**
2. **USAID should take a lead role in causing each lending institution to do longer-term strategic planning that includes affiliations or partnership alternatives.**
3. **USAID should facilitate portfolio transfers to or mergers with complementary institutions by institutions that can no longer sustain themselves.**

# TABLE 13

## RESPONDENT COMMENTS ON AFFILIATIONS/PARTNERSHIPS WITH OTHER INSTITUTIONS

| Affiliations/Partnerships (A/P) | | | | |
|---|---|---|---|---|
| **Institution** | **Existing A/P (Name the institution and type of affiliation from * list below)** | **Potential A/P Terms Short** | **Long** | **If potential, what would that affiliation/ partnership involve (see below * for choices), and list in order of likelihood.** |
| | | | | |
| **FINCA Georgia Comments by FINCA** | TBC Bank & Shorebank | | | |
| **Constanta Comments by Constanta** | Microfinance Bank(MBG) | | MBG | A |
| **Comments by MBG** | Regular contact established | * | * | Assistance in training & credit technology,<br>Refinancing by MBG,<br>Banking services/savings products,<br>Loans to clients above Constant's limits |
| **ACDI/VOCA Comments by ACDI/VOCA** | A, C, E | | D, G | Possible small & medium enterprise guarantee.<br>Ag. Portfolios could be purchased. |
| **IRC Comments by IRC** | CHCA (E) | | | |
| **ADRA** | | | | |
| **World Vision** | | | | |
| **TBC Bank Comments by Shorebank** | A, C, D, E, F, | D | A, C, E | E, A, C |
| **Bank of Georgia (BoG) Comments by BoG** | A | | C, F, G | |
| **Comments by Shorebank** | A, C, D, E | D | A, C, E, | E, A, C |
| **Microfinance Bank of Georgia (MBG) Comments by MBG** | | * | * | Commercial lending, co-financing |
| **Agrobusinessbank** | | | | |
| * A (commercial loans), B (international loans), C (USAID loans), D (purchase of loan portfolio), E (provider of services), F (loan guarantees), G (USAID guarantee), H (transfer to (USAID) I (other) | | | | |

# SUMMARY & CONCLUSIONS

Georgia was unable to enjoy a private sector economy for about seventy years. During that time little development occurred and the few Soviet financed and utilized industries became obsolete and are now closed. Most commercial activities are in six cities with few manufacturing firms, so the economy is based on agriculture, trading and services. Except for considerable imports from Turkey and the North, the people continue to be self-sufficient at a minimum level. The dependence on "private plots" (yard of home) is evident in each town and throughout the rural countryside. The prior poor management of sizeable acres of farming land is evident by broken irrigation systems, inconsistent cropping patterns, absolute equipment, and dated seeds of crops and breeds of livestock.

Micro loans were introduced into Georgia several years ago. The resulting increased volume of micro loans is only, therefore, about two years old. A typical microloan has a four-month maturity with the expectation of repayment and reapplication for the issue of an additional US$50. Based on this limited period of time, and given a fairly stable economy at the local level, the capacity for borrowers to continue to repay their loans has not been really tested, under harsher economic conditions, which is often the point at which lenders can ascertain the quality of their portfolios. Women are active in the markets and shops, so the target loans are getting to them. The entrepreneurial spirit is alive and well throughout Georgia and with the availability of a minimum of resources. The business training, provided by NGO's that are funded by USAID and others is basic and practical, but barely adequate over time.

Lack of customer confidence in the GEL and in the commercial banks continues. Two recent private banks (TBC Bank in 1993 & Mircofinance Bank of Georgia in 1998) are targeting the SMEs, and to a lesser degree, the micro loan area. They even make "cold calls" to promising customers and respond constructively to competition, i.e. from twelve to fifteen months of maturity on certain loans. In order to reduce the cost and improve efficiency, the country would be better served with only five or six strong branch banks that could cover the six or so major cities and regions. This should leave room for local start-up banks and other financial institutions to become competitive with the existing branch banks.

With Deposit Insurance and a stronger National Bank, the commercial banks such as MBG and TBC could commence a type of commercial paper with a longer maturity than the existing Treasuries (three months). This commercial paper should be issued in GEL. Commercial paper is a natural forerunner to the securities market. IFC has the tools and the current lending experience in Georgia to provide that needed technical assistance to a couple of banks. This would begin the substitution of near total reliance on Donor Funds and of uncertain amounts. This would be an ideal source of lower cost funds for consumer loans, production loans, and residential improvement loans and for equipment leasing loans. Also, lending rates of 24 to 36% could no longer be justified with the current "spread" of 14 to 24%.

Given the shallow micro credit availability throughout the country, USAID and other donors will be needed at increasing levels, as existing and new actions occur to build confidence in the financial community in order for people to put their own funds at risk. Based on the continuing unmet demand for credit, the USAID loan and guarantee programs need to be continued on a targeted basis as indicated in Table 7. Also, our evidence reinforces the several recommendations that are pending with the National Bank and with legislation from earlier USAID-sponsored initiatives.

If funding for humanitarian relief-based credit is concluded or loan criteria are changed, there may be needs to shift existing unpaid loan portfolios to other responsible entities. The mechanism for doing this would have to be worked out in accordance with USAID rules and regulations. The basic thrust is that the recipient of the transferred funds could collect the principal and interest and return any principal to the original lending organization. This represents the sale of assets based on future cash flow and with "full recourse" to the original lender. The transfer and re-employment of loan supervisors should be encouraged, but the ratio of loans outstanding to loan supervisors needs improvement and should be negotiated.

# ATTACHMENT 1: SELECTED BORROWER CASE STUDIES

## CASE #1: EXAMPLE OF INDIVIDUAL LOAN: SHOREBANK/IFC LENDING PROGRAM

**Company Name:** Delta Contract
**Business:** Wire products
**Lender:** Bank of Georgia, Rustavi Branch
**Loan:** $73,000 for 24 months @ 20% interest.

Mr. Kote Koperia, manager of the company gave the Team a guided tour of the facility. Delta Contract is located in the remnants of the once thriving Rustavi industrial complex, primarily iron and steel with ancillary enterprises. At its peak the industrial complex hosted 12,000 employees. Today, Delta Contract is one of the few remaining operational parts of a decaying complex largely overgrown with brush and weeds. The business began in 1996 when six founding partners negotiated to borrow products from other businesses in the Rustavi complex. They received $150,000 worth of goods and were able to use some of them and resell others to obtain machinery and equipment they needed. Today only $7,000 is owed on the original debt. The partners' original investment in the business was 80,000 GEL ($40,000 at today's exchange rates) and Mr. Koperia estimates it would take about $1.5 million to replace the company today.

The business produces wire products. Unsized wire stock is imported by the railcar load from the Ukraine and converted into various products. The first process on the wire stock is to run it through a sizing machine. Sized wire accounts for about 50 % of sales. Other products made from the wire include woven wire fencing, nails and welding electrodes. The plant produces its own coating for the electrodes. Additionally, the plant purchases specialty electrodes from Russia for resale. The purchased electrodes compliment those produced by the plant. Last year's sales were 800,000 GEL and volume is expected to reach 1.6 million GEL this year. Mr. Koperia estimates they control about 60% of the Georgian market for electrodes and about 25% of the market for nails. About 80% of sales are to the private sector with 20% to the state.

The present 24month loan was obtained in May of 2001. The bulk of the loan ($43,000) was used to purchase raw materials and $30,000 went toward wire sizing equipment. This was German equipment that had been stored in Georgia, but was unused. Current market value of such equipment purchased from Germany today would be about $300,000 according to Mr. Koperia. The equipment was purchased because the company could not keep up with demand. One earlier loan was received from the Bank of Georgia, also under the Shorebank/IFC credit line. It was for $54,000 to purchase machinery and had a two-year term but was repaid in one year. Although the present loan is for two years, it too will likely be repaid in one year.

Mr. Koperia anticipates using future credit to purchase raw materials and feels an overdraft facility would work well. Additionally, he would like to see some sort of financing for purchasers of Delta Contract's products. The company would be willing to serve as a guarantor for the purchasers on such financing. The company would be a valuable client for any bank and the IFC/Shorebank program is very suitable for them. Interestingly, Bank of Georgia reported that they were able to win the account from TBC Bank. TBC had made a loan commitment to the company, but Bank of Georgia was able to win the business before TBC closed the loan.

## CASE #2: EXAMPLE OF GROUP LOAN: FINCA LENDING PROGRAM

**Group Name:** Wine
**Representative:** Mzia Mrelashvili
**Business:** Market Retail/Clothing
**Location:** Telavi
**Lender:** FINCA

Mzia is one of 6 members of the "Wine" group in Telavi that have taken a loan from the local FINCA office. This is her first loan from the program and she has borrowed 400 GEL, approximately $200. The loan term is five months with weekly repayments and Mzia is presently on her tenth installment, the final that is due in October. She anticipates being able to repay the loan on schedule with income from her business.

The loan proceeds were used to buy inventory from a wholesaler. This expanded her business as inventory was more than doubled, allowing her customers a better selection. Because she is no longer dependent on supplier credit, she can negotiate for cash discounts of 10% and more plus she has a better selection of merchandise to choose from. This has helped since the business is the primary source of family income.

In the past Mzia has both borrowed from and lent to family members. She would like to borrow more once her loan is repaid. In the future, her family would like to borrow $500 for an incubator to expand her husband's seasonal chick hatchery business.

# APPENDIX A
# CREDIT EVALUATION PARTICIPANTS

**SUMMER, 2001**

***Tbilisi***

**William "Rusty" Schultz**, Country Director
ACDI/VOCA

Phone: 921083/4/5
Email: rusty@acdivoca.org.ge

**Michael Mgaloblishvili**, Director
Agrobusiness Bank

Phone: 329668, 250820, 251352
Email: mgalob@caucasus.net

**David Panjakidze**, Deputy General Director
JSC Bank of Georgia

Phone/Fax: 983662
Email: pandavid@bankofgeorgia.com.ge

**Chrys Miliaras**, Manager
Bannock Consulting
EBRD Georgia Microfinance Program

Phone: 920512/3/4
Email: cmiliaras@access.sanet.ge

**Tamara Lebanidze**, Director
Constanta Foundation

Phone: 953020
Email: constanta@gol.ge

**Ana Akhalkatsi**, Program Coordinator
International Finance Corporation

Phone: 942213, 942848, 990448
Email: aakhalkatsi@ifc.org

**Jennifer Sime***, Country Director
International Rescue Committee

Phone: 291436, 250138
Email: georgiacd@gol.ge

**Jeffrey "Cornish" Cornish**?, Deputy Director
International Rescue Committee

Phone: 291436, 250138 Fax: 989945
Email: jacornish@yahoo.com

**Gigi Matiashvili**, Deputy Director
FINCA Georgia

Phone: 253688/9
Email: jiij@hotmail.com

**Joerg Teumer**, Director
MBG

Phone: 250576/7/8
Email: teumer@mbg.com.ge

**Terry Stroud**
Credit Supervision Project
National Bank of Georgia

Phone: 923513, 923103
Email: tlstroud@caucasus.net

**Martin McCormack**, Esq.
Legal Project
National Bank of Georgia

Phone: 999466
Email: McCormack32@hotmail.com

* Not involved in Participatory Session

**Seit Devdariani**, Country Manager
Caucasus SME Finance Program (CSFP)
Shorebank Advisory Services (SAS)

Phone: 251388/9/90/91
Email: seit@access.sanet.ge

**Natasha Klimova**, Manager
SAS/IFC Real Estate Program
Shorebank Advisory Services (SAS)

Phone: 988167
Email: natasha.sas@access.sanet.ge

**Paata Gadzadze**, Deputy General Director
TBC Bank

Phone: 251641, 220406
Email: paata@tbcbank.com.ge

**Tata Kandelaki**?, Finance Specialist
World Bank Office Tbilisi

Phone: 942213, 942848, 990448
Email: tkandelaki@worldbank.org

**Jason Evans**, National Director
World Vision Georgia

Phone: 998384
Email: jason@wvi.org

**Tamuna Megrelishvili**, Manager
Direct Lending Program
Shorebank Advisory Services (SAS)

Phone: 251388/9/90/91
Email: tata@access.sanet.ge

**Vakhtang Butskrikidze**, President
TBC Bank

Phone: 251641, 220406
Email: vakhtang@tbcbank.com.ge

**Zezva Tsiskarishvili**, Deputy General Director
TBC Bank

Phone: 251641, 220406
Email: zezva@tbcbank.com.ge

**Gigi Maglakelidze**?, Director
World Bank Credit Union Program

Phone: 999942, 934651
Email: pcu.adp@access.sanet.ge

**Eka Ketishvili**, Operations Director
World Vision Georgia

Phone: 998384
Email: eka_ketishvili@wvi.org

### *Kutaisi*

**Regina Sulla**, Microcredit Director
ADRA

Phone: (8231) 42884
Email: 112652.2570@compuserve.com

**Zurab Charbadze**?, Branch Manager
TBC Bank/Kutaisi

Mobile: 899 582326
Email: zcharbadze@tbcbank.com.ge

**Archil Bakuradze**, Director
CHCA

Tel/Fax: (8231) 4 16 51/52/53
Email: chca@sanetk.net.ge

**Heather Moncrief**, Microcredit Coordinator
IRC/Kutaisi

Mobile: 877 422659
Email: heather@gol.ge

**George Zhenti**?, Program Manager/West Georgia
Developing Enterprise Loan Program (DELP)
Shorebank Advisory Services (SAS)

Phone: (8231) 41136 Fax: (8231) 41135
Email: gia.sas@sanetk.net.ge

***Batumi***

**Gia Chogovadze**?, Batumi Director
Constanta

Phone: (888222) 73874
Email: constanta2@gol.ge

**George Nadareishvili**?, Branch Manager
MBG Batumi Branch

Phone/Fax: (888222) 72420, 71954, 70912
Email: mbgbb@iberiapac.ge

***Telav*I**

**Ivane Zaalishvili**?, Program Assistant
FINCA

Phone/Fax: (250) 31286
Email: vanzaal@yahoo.com

**Levan Sasurkinashvili**?, Credits Manager
ACDI/VOCA

Mobile: 899 513696
Email: vanzaal@yahoo.com

***Rustavi***

**Nina Karchava**?, Deputy General Manager
Rustavi Branch/Bank of Georgia

Phone: (24) 153711

**Zurab Abashidze**?, Director
Kvemo Kartli Branch/TBC Bank

Phone: (824) 152251

***Gori***

**Gia Chonishvili**?, Credit Association Manager
ACDI/VOCA

Mobile: 899 516373

# APPENDIX B
# BORROWERS INTERVIEWED

## SUMMER, 2001

***Kutaisi***

Group Name: Silueti
Representative: Maia Kajaia
Business: Sewing/Textile for Market and Orders
Lender: ADRA

Group Name: Chico
Business: Specially Consumer Shop
Representative: Asa Diabrishvili
Lender: ADRA

Name: Aleko Isakadze
Business: Flour Mill for Wholesaling
Lender: TBC Bank/Kutaisi Branch

Name: Beso Shatirashvili
Business: Bakery/Café
Lender: TBC Bank/Kutaisi Branch

Business Name: Arbika&Pharton
Representative: Djemali Bigvava& Malkhaz Alkaidze
Business: Medical Plants Processing (Berries/Herbes)
Lender: CHCA

Name: Otar Tkelashvili
Business: Flower Production/Wholesaling
Lender: CHCA

***Batumi***

Name: Liana Apakidze
Business: Market Retail/Clothing
Lender: Constanta

Name: Tamaz Bolkvadze, Tariel Bolkvadze
Business: Minimarket/flour, salt, sugar, wine
Lender: MBG

Name: Zuzuna Guchmanidze
Business: Market Retail/Shoes
Lender: Constanta

Name: Badri Zozadze
Business: Shoes (manufacturing)
Lender: MBG

***Telavi***

Group Name: Wine
Representative: Mzia Mrelashvili
Business: Market Retail/Clothing
Lender: FINCA

Name: Bondo Mikadze
Business: Vines and Nursery
Lender: Telavi Rural Credit Association (ACDI/VOCA)

### *Rustavi*

Business Name: Shotal Ltd. Sinatle
Owner: Shota Aladashvili
Business: Cement Production/Whosale/Retail
Lender: TBC bank

Name: Delta Contract
Representative: Kote Koperia
Business: Metal Wire Production
Lender: Bank of Georgia

### *Gori*

Name: Merab Tetashvili
Business: Wheat Seed Production
Lender: Gori Rural Credit Association (ACDI/VOCA)

Name: Avtandil Ckrialashvili
Bisiness: Wheat Seed Production
Lender: Gori Rural Credit Association (ACDI/VOCA)

# APPENDIX C
# GEORGIAN CREDIT EVALUATION QUESTIONNAIRE

*By*

**Jane Seifert**
**Ronald Bielen**
**Marshall Burkes**

*Representing*

**Development Associates (Prime)**
**Nathan Associates**

**July 24, 2001**

*This Regional Credit Evaluation was initiated and funded by USAID*

| **1. Please identify specific major constraints to increased credit access in Georgia and suggest corrective measures for those constraints.** | | |
|---|---|---|
| **Item** | **A: Major Constraints NOW** | **B: Corrective Measures NEEDED** |
| **Legal** | | |
| **National Regulatory** | | |
| **Local Regulatory** | | |
| **Operational (within institution)** | | |
| **Operational (outside institution)** | | |
| **Source of Funds** | | |
| **Stability of National Monetary System** | | |
| **Stability of National Investment Climate** | | |
| **Other (specify)** | | |

| **2.1 Demand for Credit Exceeds Supply by % *(First line in each category indicates national level. )Specify regional differences on second line of each category. Regional codes and example below.)** | | | | | |
|---|---|---|---|---|---|
| | **0%** | **25%** | **50%** | **75%** | **≥100%** |
| **Non-Bank Category** | | | | | |
| **Loans** | | | | | |
| < $1,000 (USD) (micro)<br>$1,000 - 5,000 (transition)<br>$5,000 - 10,000 (transition)<br>> $10,000 (small)<br>- Country | | | | | |
| - Regional Differences | | | | | |
| Pawn Shop Loans<br>- Gold<br>- Non- gold - Country | | | | | |
| - Regional Differences | | | | | |
| Vendor Credits<br>- From Vendors<br>- From Others<br>- Country | | | | | |
| - Regional Differences | | | | | |
| Rotating Savings and Credit Assoc. (Latarea) | | | | | |
| - Country | | | | | |
| - Regional Differences | | | | | |
| Family and friends - Country | | | | | |
| - Regional Differences | | | | | |
| Other Loans - Country | | | | | |
| (Specify ____________) - Regional Differences | | | | | |
| **Agricultural Loans** | | | | | |
| SEED Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Other Production Loans - Country | | | | | |
| (Specify _____________) -Regional Differences | | | | | |
| Other Agricultural Loans - Country | | | | | |
| (Specify _____________) -Regional Differences | | | | | |
| **Other** | | | | | |
| Residential Improvement Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Financial Advisory Services - Country | | | | | |
| - Regional Differences | | | | | |
| Grant /Loan Type - Country | | | | | |
| - Regional Differences | | | | | |
| Government Credits<br>- National<br>- International - Country | | | | | |
| - Regional Differences | | | | | |
| **Example** XYZ Type Loan - Country | | | **X** | | |
| - Regional | | **9, 13** | | **1, 6** | |

* Regional Codes:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Batumi | 1 | Kutaisi | 5 | Rustavi | 8 | Telavi | 11 |
| Kaspi | 4 | Bolnisi | 2 | Poti | 6 | Senaki | 9 |
| Tsnori | 12 | Gori | 3 | Ozurgeti | 7 | Tbilisi | 10 |
| Zestaponi | 13 | | | | | | |

| **2.2 Demand for Credit Exceeds Supply by % (First line in each category indicates national level. Specify regional differences on second line of each category. *See regional codes below)** | | | | | |
|---|---|---|---|---|---|
| | **0%** | **25%** | **50%** | **75%** | **≥100%** |
| **Bank Category** | | | | | |
| **Short Term** | | | | | |
| Consumer Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Asset Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Commodity Loans – Country | | | | | |
| - Regional Differences | | | | | |
| Working Capital Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Loans Line of Credit (overdraft) - Country | | | | | |
| - Regional Differences | | | | | |
| Pawnbroker Loans<br>- Gold<br>- Non-gold - Country | | | | | |
| - Regional Differences | | | | | |
| Other - Country | | | | | |
| (Specify ______________) - Regional Differences | | | | | |
| **Longer Term** | | | | | |
| Real Estate Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Land Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Home Improvement - Country | | | | | |
| - Regional Differences | | | | | |
| Leasing - Country | | | | | |
| - Regional Differences | | | | | |
| Agricultural Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Other Loans - Country | | | | | |
| (Specify _____________)- Regional Differences | | | | | |
| **Other** | | | | | |
| Financial Advisory Services - Country | | | | | |
| - Regional Differences | | | | | |
| Other - Country | | | | | |
| (Specify _____________) - Regional Differences | | | | | |

***** Regional Codes:

| | | | | | |
|---|---|---|---|---|---|
| Batumi | 1 | Poti | 6 | Telavi | 11 |
| Bolnisi | 2 | Ozurgeti | 7 | Tsnori | 12 |
| Gori | 3 | Rustavi | 8 | Zestaponi | 13 |
| Kaspi | 4 | Senaki | 9 | | |
| Kutaisi | 5 | Tbilisi | 10 | | |

| **2.3 Demand for Credit Exceeds Supply by % (First line in each category indicates national level. Specify regional differences on second line of each category. *See regional codes below)** | | | | | |
|---|---|---|---|---|---|
| | 0% | 25% | 50% | 75% | ≥100 |
| **Possible USAID Assisted Products** | | | | | |
| Equipment Loans | | | | | |
| Equipment Leasing | | | | | |
| Real Estate Purchase | | | | | |
| Building Improvement<br>- Residential<br>- Commercial | | | | | |
| Leasehold Improvements | | | | | |
| Land Purchase | | | | | |
| Lease Purchase | | | | | |
| Production Loans | | | | | |
| Business Loans | | | | | |
| Insurance<br>- Life<br>- Fidelity<br>- Property<br>- Other (Specify________________) | | | | | |
| Loan Products: | | | | | |
| - Targeted to Women | | | | | |
| -Targeted to Men | | | | | |
| Other Products - Loan /Non-loan | | | | | |
| (Specify_______________________) | | | | | |
| (Specify_______________________) | | | | | |
| (Specify_______________________) | | | | | |
| (Specify_______________________) | | | | | |
| (Specify_______________________) | | | | | |

* Regional Codes:

| | | | | | |
|---|---|---|---|---|---|
| Batumi | 1 | Poti | 6 | Telavi | 11 |
| Bolnisi | 2 | Ozurgeti | 7 | Tsnori | 12 |
| Gori | 3 | Rustavi | 8 | Zestaponi | 13 |
| Kaspi | 4 | Senaki | 9 | | |
| Kutaisi | 5 | Tbilisi | 10 | | |

| **3.1 Supply for Credit Exceeds Demand by % (First line in each category indicates national level. Specify regional differences on second line of each category. * See regional codes below.)** | | | | | |
|---|---|---|---|---|---|
| | **0%** | **25%** | **50%** | **75%** | **≥100%** |
| **Non-Bank Category** | | | | | |
| **Loans** | | | | | |
| US$<br>< 1,000 (micro)<br>1,000 - 5,000 (transition)<br>5,000 - 10,000 (transition)<br>> 10,000 (small) - Country | | | | | |
| - Regional Differences | | | | | |
| Pawn Shop Loans<br>- Gold<br>- Non- gold - Country | | | | | |
| - Regional Differences | | | | | |
| Vendor Credits<br>- From Vendors<br>- From Others - Country | | | | | |
| - Regional Differences | | | | | |
| Rotating Savings and Credit Assoc. (Latarea) | | | | | |
| - Country | | | | | |
| - Regional differences | | | | | |
| Family and friends - Country | | | | | |
| - Regional Differences | | | | | |
| Other Loans - Country | | | | | |
| (Specify________________) -Regional Differences | | | | | |
| **Agricultural Loans** | | | | | |
| SEED Loans - Country | | | | | |
| -Regional Differences | | | | | |
| Other Production Loans - Country | | | | | |
| -Regional Differences | | | | | |
| Other Agricultural Loans - Country | | | | | |
| (Specify________________) -Regional Differences | | | | | |
| **Other** | | | | | |
| Residential Improvement Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Financial Advisory Services - Country | | | | | |
| - Regional Differences | | | | | |
| Grant /Loan Type - Country | | | | | |
| - Regional Differences | | | | | |
| Government Credits<br>- National<br>- International - Country | | | | | |
| - Regional Differences | | | | | |

* Regional Codes:

| | | | | | |
|---|---|---|---|---|---|
| Batumi | 1 | Poti | 6 | Telavi | 11 |
| Bolnisi | 2 | Ozurgeti | 7 | Tsnori | 12 |
| Gori | 3 | Rustavi | 8 | Zestaponi | 13 |
| Kaspi | 4 | Senaki | 9 | | |
| Kutaisi | 5 | Tbilisi | 10 | | |

| **3.2 Supply for Credit Exceeds Demand by % (First line in each category indicates national level. Specify regional differences on second line of each category. *See regional codes below)** | | | | | |
|---|---|---|---|---|---|
| | **0%** | **25%** | **50%** | **75%** | **≥100%** |
| **Bank Category** | | | | | |
| **Short Term** | | | | | |
| Consumer Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Asset Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Commodity Loans – Country | | | | | |
| - Regional Differences | | | | | |
| Working Capital Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Loans Line of Credit (overdraft) - Country | | | | | |
| - Regional Differences | | | | | |
| Pawnbroker Loans<br>- Gold<br>- Non-gold - Country | | | | | |
| - Regional Differences | | | | | |
| Other - Country | | | | | |
| (Specify_______________) – Regional Differences | | | | | |
| **Longer Term** | | | | | |
| Real Estate Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Land Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Home Improvement - Country | | | | | |
| - Regional Differences | | | | | |
| Leasing - Country | | | | | |
| - Regional Differences | | | | | |
| Agricultural Loans - Country | | | | | |
| - Regional Differences | | | | | |
| Other Loans - Country | | | | | |
| (Specify_______________) – Regional Differences | | | | | |
| **Other** | | | | | |
| Financial Advisory Services - Country | | | | | |
| - Regional Differences | | | | | |
| Other (specify__________)- Country | | | | | |
| - Regional Differences | | | | | |

* Regional Codes:

| | | | | | |
|---|---|---|---|---|---|
| Batumi | 1 | Poti | 6 | Telavi | 11 |
| Bolnisi | 2 | Ozurgeti | 7 | Tsnori | 12 |
| Gori | 3 | Rustavi | 8 | Zestaponi | 13 |
| Kaspi | 4 | Senaki | 9 | | |
| Kutaisi | 5 | Tbilisi | 10 | | |

**Table 4.1a: Issues Related to Strengths and Weaknesses of USAID-funded Non-Bank Credit Institutions (Respondents' Comments)**

| Topic | Constanta (Save the Children) | FINCA/Georgia (FINCA) | Enki Foundation (ACDI/VOCA) |
|---|---|---|---|
| **Sustainability:** *Strengths* | | | |
| *Weaknesses* | | | |
| **Governance:** *Strengths* | | | |
| *Weaknesses* | | | |
| **Internal Controls:** *Strengths* | | | |
| *Weaknesses* | | | |
| **Products:** *Strengths* | | | |
| *Weaknesses* | | | |
| **Market Position:** *Strengths* | | | |
| *Weaknesses* | | | |
| **Other:** *Strengths* | | | |
| *Weaknesses* | | | |

**Table 4.1b: Issues Related to Strengths and Weaknesses of USAID-funded Bank Credit Institutions (Respondents' Comments)**

| Topic | TBC Bank | TBC Bank (From Shorebank) | Bank of Georgia (From Shorebank) |
|---|---|---|---|
| **Sustainability:** *Strengths* | | | |
| *Weaknesses* | | | |
| **Governance:** *Strengths* | | | |
| *Weaknesses* | | | |
| **Internal Controls:** *Strengths* | | | |
| *Weaknesses* | | | |
| **Products:** *Strengths* | | | |
| *Weaknesses* | | | |
| **Market Position:** *Strengths* | | | |
| *Weaknesses* | | | |
| **Other:** *Strengths* | | | |
| *Weaknesses* | | | |

**Table 4.2a: Issues Related to Opportunities and Threats facing USAID-funded Non-Bank Credit Institutions (Respondents' comments)**

| Topic | Constanta (Save the Children) | FINCA/Georgia (FINCA) | Enki Foundation (ACDI/VOCA) |
|---|---|---|---|
| **Sustainability:** *Opportunities* | | | |
| *Threats* | | | |
| **Governance:** *Opportunities* | | | |
| *Threats* | | | |
| **Internal Controls:** *Opportunities* | | | |
| *Threats* | | | |
| **Products:** *Opportunities* | | | |
| *Threats* | | | |
| **Market Position:** *Opportunities* | | | |
| *Threats* | | | |
| **Other:** *Opportunities* | | | |
| *Threats* | | | |

**Table 4.2b: Issues Related to Opportunities and Threats facing USAID-funded Bank Credit Institutions (Respondents' comments)**

| Topic | TBC Bank | TBC Bank (From Shorebank) | Bank of Georgia (From Shorebank) |
|---|---|---|---|
| **Sustainability:** ***Opportunities*** | | | |
| ***Threats*** | | | |
| **Governance:** ***Opportunities*** | | | |
| ***Threats*** | | | |
| **Internal Controls:** ***Opportunities*** | | | |
| ***Threats*** | | | |
| **Products:** ***Opportunities*** | | | |
| ***Threats*** | | | |
| **Market Position:** ***Opportunities*** | | | |
| ***Threats*** | | | |
| **Other:** ***Opportunities*** | | | |
| ***Threats*** | | | |

**5.1: What is your institution's current level of sustainability?**

| **PLEASE RATE EACH ACCORDING TO THE FOLLOWING CATEGORIES:** | **INADEQUATE** | **ADEQUATE** | **MORE THAN ADEQUATE** |
|---|---|---|---|
| OPERATIONAL SUSTAINABILITY: CURRENT ______% | | | |
| | | | |
| **a. Management Issues:** | | | |
| Transition from T/A to local | | | |
| Management succession | | | |
| Independence of local management **From local pressures** | | | |
| Adequacy of compensation of **Local managers** | | | |
| | | | |
| **b. Personnel Issues** | | | |
| Training | | | |
| Organizational structure | | | |
| | | | |
| **c. Checks and Balances** | | | |
| Policies | | | |
| Procedures | | | |
| Internal controls | | | |
| | | | |
| **d. Market Issues** | | | |
| Pricing of products | | | |
| Size of market | | | |
| Expansion of products And geographic areas | | | |
| | | | |
| *FINANCIAL SUSTAINABILITY: CURRENT_____% (NB IN ADDITION TO OPERATING SUSTAINABILITY ISSUES, THE FOLLOWING ARE NECESSARY)* | | | |
| | | | |
| **a. Original funding** | | | |
| **b. Uninterrupted on-going funding** | | | |
| **c. Diversification of funding sources** | | | |
| | | | |

**5.2. What level of sustainability do you expect for each year?**

| | **Operational** | **Financial** |
|---|---|---|
| **Oct. 1/01 - Sept. 30/02** | **_______%** | **______%** |
| **Oct.1/ 02 – Sept. 30/03** | **_______%** | **______%** |
| **Oct. 1/03 – Sept. 30/04** | **_______%** | **______%** |

**5. 3. What specific actions are planned to achieve & maintain sustainability?**

**6. Please comment on these banking and non-banking institutions in the following categories:**

| Institution | Affiliations/Partnerships (A/P)<br>Existing A/P (Name the institution and type of affiliation from * list below) | Potential A/P<br>Terms<br>Short | Long | If potential, what would that affiliation/ partnership involve (see below * for choices), and list in order of likelihood. |
|---|---|---|---|---|
| | | | | |
| *FINCA Georgia* | | | | |
| *Constanta* | | | | |
| *ACDI/VOCA* | | | | |
| *IRC* | | | | |
| *ADRA* | | | | |
| *World Vision* | | | | |
| *TBC Bank* | | | | |
| *Bank of Georgia (BoG)* | | | | |
| *Microfinance Bank of Georgia (MBG)* | | | | |
| *Agrobusinessbank* | | | | |
| *Other* | | | | |

*** A (commercial loans), B (international loans), C (USAID loans), D (purchase of loan portfolio), E (provider of services), F (loan guarantees), G (USAID guarantee), H (transfer to USAID) I (other)**

# APPENDIX D
# SCOPE OF WORK
# FOR REGIONAL CREDIT EVALUATION IN GEORGIA AND AZERBAIJAN

## USAID/CAUCASUS

## SUMMARY

This comprehensive evaluation will review, analyze, and evaluate the current status in the development of financial products and credit provided by banking and non-banking financial institutions (NBFIs) in Georgia and Azerbaijan in the context of overall credit demand-supply. Based on the findings, the evaluation team will make specific strategic and programmatic recommendations for USAID's ongoing assistance.

### BACKGROUND

Lack of access to credit has been identified by USAID and other donors as one of the major impediments to growth of micro-and-small enterprises (MSE) in Georgia and Azerbaijan. As a result, increased access to finance for domestic enterprises and microentrepreneurs is a key Intermediate Result under USAID/Caucasus/Georgia's Strategic Objective (SO) 1.3, "Accelerated Development and Growth of Private Enterprise". It is also a critical component of SO 3.1, "Reduced Human Suffering in Targeted Communities", providing income generation opportunities for the more vulnerable population. These two Strategic Objectives also apply to the Azerbaijan program.

USAID provides access to finance for domestic SMEs and micro-enterprises. In Georgia SO 1.3 activities currently are implemented by FINCA International, Shorebank Advisory Services, ACDI/VOCA, and Save the Children/Constanta. In Azerbaijan implementors include FINCA International, Shorebank Advisory Services, and ACDI/VOCA. Credit activities funded under SO 3.1 in Georgia and Azerbaijan include those implemented by International Rescue Committee (IRC), Mercy Corps International, and Adventists Development and Relief Agency (ADRA), CARE, and UMCOR.

While both economic development and humanitarian assistance portfolios include credit activities, the focus and operating practices are not the same. Humanitarian Assistance (HA) credit operations are relatively short-term and do not focus on institution building, so are not consistent with microfinance "best practices". As micro-small-and medium enterprise (MSME) activities expand and increase demand on credit providers, it is important to determine how to create stable and sustainable credit facilities.

Other donors have begun an increasing variety of credit facilities in both countries since 1997. For Georgia, such examples include International Financial Corporation's (IFC) credit lines for SME lending through Georgian commercial banks, French Government funding for establishment of 90 credit unions, and World Bank (WB) funding for the establishment of 120 credit unions. In Azerbaijan IBRD, IFC, and GTZ also assist in providing increased access to credit to SMEs.

As a result of increased donor assistance in the credit sector, credit programs have expanded geographically and, at the same time, have embraced more and diverse target groups such as farmers, agribusiness, production and service, self-employed micro-entrepreneurs, internally displaced people (IDPs), women, and other vulnerable groups. Sufficient effort has been placed on strengthening or building the institutional capacity of credit providers in Georgia and Azerbaijan. As a result, there have been a significant number of failures including the WB credit unions in Georgia, the majority of which failed within 12 months of start-up. The assumption is that there is the need for capacity building to increase sustainability of credit institutions in both countries. The evaluation is expected to test/validate this assumption.

Bank credits for SMEs have increased somewhat over the last few years, as have technical assistance to banks provided by donors and international organizations.

Overall progress in the development of credit facilities during the past three years in Georgia is characterized by: establishment and growth of microfinance institutions (MFIs); growth in the variety of MSME lending products; up-scaling of credit products to larger amounts; a growing coalition between banks and NBFIs; emergence of MFI joint efforts to address legal-regulatory issues; and graduation of clients from group to individual lending.
For Azerbaijan the progress observed is less distinct. This is due in large measure to legal-regulatory barriers that constrain the development of micro-and small-enterprises. USAID's involvement in initiating legal-regulatory reform has been limited by provisions of Section 907 of Freedom Support Act (FSA). Further, legal constraints have created serious problems for functioning of non-banking financial institutions. Such legal issues caused FINCA to suspend operations for almost nine month in 1999 almost leading to total closeout of its operations. (The issue was finally resolved by obtaining a limited Banking License under which FINCA operates todate.)

While Georgia has fewer barriers, it also does not have a micro-enterprise development policy. Furthermore, many legal and regulatory barriers remain that constrain the development of micro- and small-enterprises. It is estimated that 55% of economically active Georgians are self-employed microentrepreneurs. Given this fact, the fostering of micro-enterprise development is an important aspect of economic development, as well as an important poverty reduction strategy.

## OBJECTIVES AND TASKS

The principal objective of this evaluation is to examine the development of access to credit in Georgia and Azerbaijan in a broad and comprehensive manner. The evaluation should identify major constraints and opportunities plus provide specific recommendations for USAID's further capital funding or technical assistance in this area.

### *In Georgia the evaluation will focus on:*

- Analysis of major constraints (legal, regulatory, operational, financial, etc.) for increased access to credit in the country. Analysis should include deficiencies in infrastructure elements.

- Analysis of demand and supply of credit including identification of the products and services in highest demand, as well as the most successful form(s)/structure(s) of credit institutions (banking and non-banking). Analysis should include identification of target groups that have been most efficiently reached by financial products, as well as those that have not been reached yet, and reasons for this. This should also include analysis of the number and characteristics of the current and potential clientele.

- Analysis of financial products supplied by banks and NBFIs in context of existing demand, and potential for new products and/or expansion of existing supply. Examples include, but are not limited to, micro-leasing and residential improvement loans.

- An overview of USAID-funded credit institutions serving micro-and small entrepreneurs, their strength, weaknesses, threats and opportunities. This should include analysis of issues relevant to sustainability, governance, internal controls, products, market position, etc.

- Analysis of financial and operational sustainability issues of established MFIs. What are the prospects for sustainability and what can be done to ensure future sustainability?

- Analysis of current status and potential for affiliation/partnership between banking and non-banking institutions, such as potential lending to MFI from banks, funding facilities, portfolio investments, etc.

- Design characteristics and profile of credit operations under SO 3.1 portfolio that can serve as parameters for potential rationalizing/transitioning into more developed operations.

### *In Azerbaijan the evaluation will focus on:*

- Analysis of major constraints (legal, regulatory, operational, financial, etc.) for increased access to credit in the country. Analysis should include deficiencies in infrastructure elements.

- Analysis of demand and supply of credit in country including identification of the products and services in highest demand, as well as the most successful form(s)/structure(s) of credit institutions (banking and non-banking). Analysis should include identification of target groups that have been most efficiently reached by financial products, as well as those that have not been reached yet, and reasons for this. This should also include analysis of the number and characteristics of the current and potential clientele.

- Analysis of financial products supplied by banks and NBFIs in context of existing demand, and potential for new products and/or expansion of existing supply. Examples include, but are not limited to, micro-leasing and residential improvement loans.

- Analysis of financial and operational sustainability issues of established MFIs. What are the prospects for sustainability and what can be done to ensure future sustainability?

- An overview of USAID-funded credit institutions serving micro-and small entrepreneurs, their strength, weaknesses, threats and opportunities. This should include analysis of issues relevant to sustainability, governance, internal controls, products, market position, etc.

- A comparison between the SO 1.3 and SO 3.1 portfolio, in order to determine where better and more strategic complementarity is possible in the future, given the current status of economic development in Azerbaijan.

**DELIVERABLES**

The evaluation will have two sets of deliverables: one for Georgia and another for Azerbaijan.

***Georgia***

The team will submit a work plan within two days after arrival in Georgia.

At the completion of the evaluation Georgia, the team will brief the Mission staff, and will submit a draft report that will summarize all tasks outlined in this Scope of Work. The report will also include findings and recommendations on priorities for further assistance/activities in the area. The report should include recommendations on best ways to ensure the most efficient delivery of credit, on future assistance to banking and non-banking institutions, on the ways of rationalizing/addressing sustainability issues vis-a-vis the credit programs currently operating under SO 3.1. Based on the findings the evaluation report will also make specific strategic and programmatic recommendations for USAID's further assistance in this sector.

The draft will be presented to USAID/Georgia before the team departs. The Mission will provide comments and suggestions within one week of receiving the draft. The Final Report (in amount of 10 bound copies and an electronic version in PDF format) will be provided to the Mission within two weeks after completion of evaluation Georgia.

***Azerbaijan***

The team will submit a work plan within two days after arrival in Azerbaijan.

At the completion of the activity, the team will brief the USAID/Baku Mission staff, and submit a draft evaluation report that will summarize all tasks outlined in this Scope of Work. The report will also include findings and recommendations on priorities for further assistance/activities in the area. The report should include recommendations on best ways to ensure the most efficient delivery of credit, on future assistance to banking and non-banking institutions, on the ways of rationalizing/addressing sustainability issues vis-à-vis the credit programs currently operating under SO 3.1. Based on the findings the evaluation report will also make specific strategic and programmatic recommendations for USAID's further potential assistance in this sector.

The draft will be presented to USAID/Baku before the team departs. The Mission will provide comments and suggestions within one week of receiving the draft. The Final Report (in amount of 10 bound copies and an electronic version in PDF format) will be provided to the Mission within two weeks after completion of evaluation Azerbaijan.

**LOGISTICAL ASSISTANCE**

The Mission will provide background and reading materials. The Mission will provide logistical support in scheduling meetings and site visits. The Contractor is required to provide all other logistical support, such as travel, accommodation requirements, etc.
Evaluation team members are requested to bring laptop computers with them.

The team is responsible for hiring local interpreters and local driver(s) with a vehicle(s).

**DOCUMENTS FOR REVIEW**

***For Georgia:***

"Capital Products Survey" by Sibley International, 2000.
"MFI Legislation in Georgia" by FINCA/Georgia, 2000.
Last Quarterly and Annual reports of Shorebank/FINCA, ACDI/VOCA, and Save the Children/Constanta.
Report of some Humanitarian Assistance credit projects: IRC, ADRA, UMCOR.
Banking Sector Assessment, Barents Group, 1998.
Private Sector Assessment by DAI and Price Waterhouse, 1999
Trip Report of March 2001 by Laurie Landy, AID/Washington E&E Senior Banking Advisor
Microfinance Legislation in Georgia, May, 2001, by FINCA/Save

***For Azerbaijan:***

Private Sector Assessment, Price Waterhouse Coopers, 2000.
Rule of Law Assessment, by USAID/Washington, 2000.
Economic Trends, Winter 2001 Quarterly Report, EU/TACIS
Last Quarterly and Annual reports of Shorebank/FINCA, and ACDI/VOCA
Report of some Humanitarian Assistance credit projects: IRC, ADRA, Mercy Corps

# APPENDIX E
# LIST OF REPORTS AND PUBLICATIONS

*An Assessment and Rating of the Georgian Banking System*, Michael Borish & Company, Inc., (funded by USAID under Financial Sector Development Project – Phase II), December15, 1998.

*Capital Products Survey: Survey Results (Revised Edition)*, Colette McInerney, December 15, 2000.

*The Caucasus SME Finance Program (CSFP) Quarterly Report – March 2001*, Shorebank Advisory Services, April 30, 2001.

*Microfinance Legislation in Georgia*, FINCA Georgia, Giorgi Otaridze.

*Seed Enterprise Enhancement and Development (SEED) Project*, (USAID – ACDI/VOCA Cooperative Agreement ? NIS-A-00-97-00046-00), Second Quarter FY 2001 (Yr. 4).

*Strategic Plan Georgia: FY 2000- FY 2003*, USAID/Caucasus, June 1999.

Annual Reports and Brochures

ACDI/VOCA
Agro Business Bank of Georgia: Annual Report 2000.
Bank of Georgia: Current Annual Report (See Website: www.bankofgeorgia.com.ge)
The Constanta Foundation
FINCA
Microfinance Bank of Georgia: Annual Report 2000 and 2001.
TBC Bank: Annual Report 2000
World Vision Georgia
Your Partner in Georgia: GeoEngineering Ltd.